1968 Annual Report

United States Steel Corporation

—A Diversified Producer of Materials and Services

Above: View through a gleaming galvanized steel coil at exit end of one of U. S. Steel's new "twin" high-speed galvanizing lines.

Sixty-seventh Annual Report

United States Steel Corporation
71 BROADWAY, NEW YORK, N. Y. 10006
525 WILLIAM PENN PLACE, PITTSBURGH, PA. 15230

Receipts and Their Disposition in 1968

	Total Dollars in millions	Dollars per employe*	Dollars per man-hour*
Receipts from customers—the public	**$4,609.2**	**$23,368**	**$12.48**
Disposed of as follows:			
Employment costs—U. S. Steel's direct employment	2,055.9	10,423	5.57
Products and services bought—Provides employment by suppliers and by their suppliers in turn	1,766.1	8,954	4.78
Wear and exhaustion—Provides employment by suppliers of new plants and equipment and by their suppliers in turn	253.1	1,283	.69
Taxes—Provides revenue for governments	213.3	1,082	.58
Interest—Compensation for savings loaned	67.1	340	.18
Dividends—Compensation for savings invested	129.9	659	.35
Income reinvested in business	123.8	627	.33
Total	**$4,609.2**	**$23,368**	**$12.48**

*Excluding employes (1.9 percent of total) the cost of whose work was charged to construction.

Contents

Front Cover

Typical products from USS, a diversified producer of materials and services: fertilizers, plastics, aluminum siding, cements and steel rods, billets and rolling mill rolls.

In this report, amounts in round numbers are approximate. "U. S. Steel" refers to parent corporation, subsidiaries, or both as required by context. USS, COR-TEN, CURVEMASTER, CYCLONE, POLY-KOOP, "T-1" and VERTAGREEN are registered trademarks of U. S. Steel.

1969 ANNUAL STOCKHOLDERS' MEETING will be held at the Birmingham Municipal Auditorium, Birmingham, Alabama on Monday, May 5, 1969.

The Year 1968 for U.S. Steel –At a Glance

		1968*	1967
Sales	Amount	**$4,609.2 million**	$4,067.2 million
Income	Amount	**$ 253.7 million**	$ 172.5 million
	Return on sales	**5.5 percent**	4.2 percent
	Per common share	**$ 4.69**	$ 3.19
Dividends and Income Reinvested	Declared on common	**$ 129.9 million**	$ 129.9 million
	Per common share	**$ 2.40**	$ 2.40
	Income reinvested	**$ 123.8 million**	$ 42.6 million
Taxes	Amount	**$ 213.3 million**	$ 182.2 million
	Per common share	**$ 3.94**	$ 3.36
Steel Production and Shipments	Raw steel produced	**32.4 million tons**	30.9 million tons
	Percent of 1957-59 average	**118.0**	113.0
	Steel products shipped	**22.5 million tons**	19.8 million tons
Property Expenditures	Spent in year	**$ 697.4 million**	$ 574.7 million
	Authorized at year-end	**$1,110.0 million**	$1,150.0 million
Marketable Securities Held for Property Expenditures	At year-end	**$ 655.0 million**	$ 655.0 million
Working Capital	At year-end	**$ 875.3 million**	$ 655.2 million
Total Long-Term Debt	At year-end	**$1,592.6 million**	$1,221.4 million
Ownership—Stock and Income Reinvested	At year-end	**$3,344.5 million**	$3,220.7 million
Stockholders	Number	**348,525**	343,057
Employes	Average number for year	**201,017**	197,643
	Average hourly employment cost	**$ 5.57**	$ 5.19

*Methods of recording depreciation and investment credit were changed for the year 1968, which increased 1968 income $94.0 million or $1.74 per share; see pages 4 and 26.

U. S. Steel's new Chairman of the Board and Chief Executive Officer, Edwin H. Gott (right), and his predecessor, Roger M. Blough who retired. Formerly President, Mr. Gott assumed his new duties on February 1, 1969. Mr. Blough will continue to serve as a member of the Board.

The Year 1968 for U.S. Steel

The principal features of the year 1968 in U. S. Steel's operations were: widely fluctuating levels of business, substantial increases in employment and other costs, high start-up costs for many new facilities, further erosion of steel markets by imports and intense competition. As a result, there was continued profit-squeeze.

The year 1968 also saw the continuation of our accelerated facility program, our extensive research efforts and our marketing programs. Numerous construction and investment activities were under way to enhance participation in profitable and growing non-steel markets—thus improving our position as a diversified producer of materials and services.

Steel product shipments of 22.5 million net tons were higher than in 1967. Income of $253.7 million as reported for 1968 was also higher. It reflects the effect of changes, for financial reporting purposes, in the methods of recording depreciation and the investment credit as explained on pages 4 and 26.

The volatile pattern of steel product shipments affected operating costs and efficiency as customers' strike-hedge buying rose to a peak and then dropped sharply after the labor settlement at the end of July. As a result of the many new facilities brought on stream in recent years and planned inventory stocking programs, U. S. Steel demonstrated substantially increased capabilities for satisfying customer demands, particularly during peak periods.

The steel industry has its own special and serious problems stemming from the large and rapidly growing influx of steel from abroad. These problems have been recognized in particular by producers in Europe and Japan who have recently undertaken a program of voluntary limitations on their shipments to the American market. But these limitations will not, in our judgment, adequately relieve the steel import threat to our national and economic security. U. S. Steel therefore urges that the Congress continue to consider a definitive legislative solution of this critical problem.

The problem of imports and exports in the American economy is much broader than just steel and requires fundamental, long-term solutions to improve international trading rules and the worldwide competitiveness of American goods. This is discussed in the Message on "International Competition" starting on page 32.

The high level of steel consumption in the United States, an estimated record of just over 100 million tons for the year, was a bright spot. Steel consumption may well increase again in 1969. However, shipments may not match 1968, since inventory liquidation by customers may continue through the first quarter.

These matters are discussed further on the following pages of this Report.

Financial Review

Income

Sales of products and services were $4.6 billion, an all-time high level.

Income for the year was $253.7 million, a return of 5.5 percent on sales and $4.69 per share of common stock, after revision of depreciation and investment credit procedures as explained below. Income in 1967 was $172.5 million, a return of 4.2 percent on sales and $3.19 per share.

Over recent years, the tax laws have been modified to permit depreciation of facilities to be calculated on an accelerated basis. Coincident therewith, most of the major companies in the steel industry, including U. S. Steel, have also included depreciation on an accelerated basis in their published reports. During 1968, a number of these companies announced a change in their method of determining depreciation for financial reporting purposes whereby depreciation for the year is reported on a straight-line basis rather than on the accelerated basis previously used.

The Revenue Act of 1962, as amended in 1964, provided for an investment credit against Federal income tax of a portion of the cost of certain depreciable property. U. S. Steel adopted the accounting method by which it deferred this credit and amortized it over the lives of the properties acquired. All other major steel companies now flow the full investment credit to income as realized.

U. S. Steel considered the procedures it previously followed in connection with depreciation and the investment credit to be preferable to other methods in the reporting of results of operations. However, to enhance the comparability of financial statements in the steel industry and to bring depreciation and investment credit accounting policies more in line with methods followed by U. S. businesses in general, U. S. Steel, for financial reporting purposes, revised the lives of certain properties and changed its methods of recording depreciation and investment credit for the year 1968 to a straight-line basis and a flow-through basis, respectively. The effect of these changes was to increase reported income for the year 1968 by $94.0 million or $1.74 per share of common stock.

The income results for the year were seriously hampered: by the pattern of steel shipments that prevailed—an average of more than 2.2 million tons per month in the first seven months of the year and 1.4 million tons per month in the last five months; by substantial cost increases, and by intense price competition in some product lines throughout the year. Meeting the short-term high-volume demand required extensive overtime work and the start-up and use of some higher operating-cost facilities.

Employment costs averaged $5.57 per hour worked in 1968, more than 7 percent higher than the 1967 rate. This increase reflected the full-year effects of increases in wage rates and improvements in certain employe benefit programs effective August 1, 1967, as part of the 1965 labor agreements, and the substantial increase in hourly employment costs following the 1968 labor settlements. Social Security taxes also increased in 1968 because of an 18 percent increase in the base to which the tax applies. The Social Security tax rate was again increased on January 1, 1969.

With the accelerated capital expenditure program that has been under way for some three years, many new facilities were in various stages of start-up and costs associated with this were higher than in 1967.

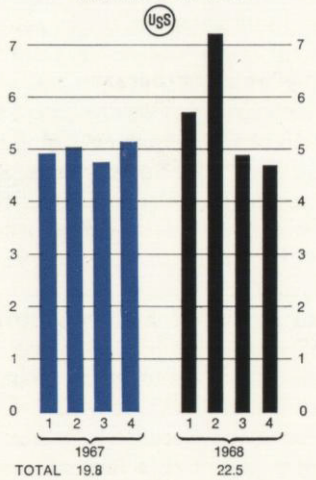
Price changes, both upward and downward, were made from time to time during the year. By the end of 1968, the general level of steel prices had increased about 2.2 percent over that of the previous year-end, based on the Government's index of finished steel mill product prices.

Steel shipments for both U.S. Steel and the industry were greater than in 1967. Total industry shipments increased by 8 million tons or 9 percent. However, steel imports increased at an even faster pace —capturing 17 percent of the domestic market—and set a new record of 18.5 million tons which was a 55 percent, or 6.5 million ton increase over the record level

Shipments of Steel Products

1967-1968 BY QUARTERS

MILLIONS OF NET TONS



EDGAR B. SPEER
President, as of February 1, 1969

ROBERT C. TYSON
Chairman of the Finance Committee

of 1967. Thus, a disproportionate share of the growth in steel consumption has gone to foreign producers.

The Board of Directors declared dividends totaling $2.40 per share for the year 1968, consisting of declarations of 60 cents each in April, July and October of 1968 and 60 cents in January 1969. Income reinvested in the business in 1968 was $123.8 million or $2.29 per share.

Financing

At year-end, total long-term debt was $1,593 million, an increase of $371 million over the 1967 year-end amount.

Early in 1968, credit agreements were completed with a group of banks for a four-year revolving credit of up to $310 million which may be converted at the end of that period into a four-year term loan. The full amount was borrowed and added to the funds of the Corporation for general corporate purposes, including replacement of working capital expended for property additions and replacements.

The proceeds from an $80 million Industrial Development Revenue Bond issue, sold in March, 1968 by the County of Lorain, Ohio, are being used for construction of basic oxygen steelmaking and related facilities at the Lorain (Ohio) Works. U. S. Steel is constructing the facilities for the County, will lease them from the County at an annual amount sufficient to service interest and principal on the bonds and will acquire the facilities at the end of the lease.

As part of the purchase of the business of Armour Agricultural Chemical Company in 1968, U. S. Steel assumed a long-term lease obligation related to the $21 million of Industrial Development Revenue Bonds of the Town of Cherokee, Alabama.

Orinoco Mining Company, a wholly-owned subsidiary, arranged for a $50 million loan from the Export-Import Bank to help finance purchases of United States equipment and services needed for a high-iron briquette plant now under construction in Venezuela. By year-end, $9.7 million of this amount had been borrowed. The Venezuelan Government, through an agreement with Orinoco Mining Company, has an option to participate in the ownership of the plant.

In 1968, stockholders approved an amendment to U. S. Steel's Certificate of Incorporation to permit the future issuance of up to 20 million shares of a new class of preferred stock without par value. The new stock may be issued at the direction of the Board of Directors, if and when it is deemed to be in the best interests of U. S. Steel. The Board would at that time determine the features and rights of this stock, including provisions for convertibility into common stock if deemed desirable.

Plant and Equipment Program

In the three years 1966-68, expenditures for replacement, modernization and extension of facilities have totaled $1.7 billion. For 1968, expenditures were $697 million, more than 21 percent higher than the previous record of $575 million spent in 1967.

New authorizations during 1968 totaled $657 million. At the end of the year, the amount required to complete all authorized projects was $1,110 million. Property expenditures in 1969 are expected again to exceed $600 million.

Above: Texas Works taking shape. Rising from table-flat land east of Houston, this building complex will house the 160-inch plate mill—the first phase of U. S. Steel's new plant in the Southwest.

Right: Colorful plastic products from USS. Containers, TV cabinet, beverage cartons, air-conditioner grill, automobile console and other items shown are a few of the products produced by the Molded Plastics Products operations of USS Chemicals.

USS - A Diversified Producer of Materials and Services

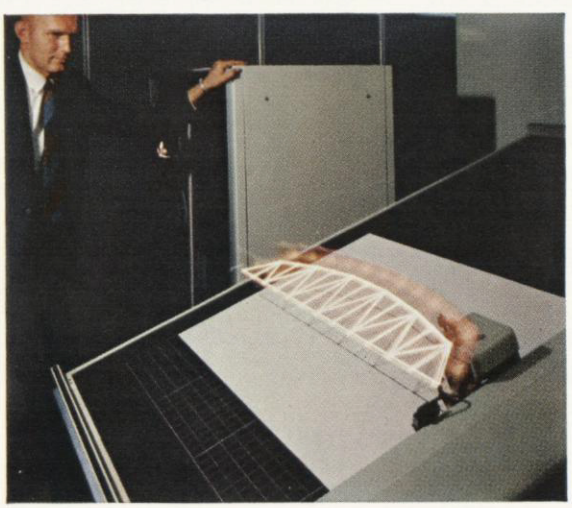
Extensive research, marketing, product development, facility construction and investment programs are being carried forward to advance U. S. Steel as a more profitable diversified producer of materials and services.

The production and sale of a very wide range of steel products is the principal business of U. S. Steel, but it is vigorously pursuing profit opportunities in the growing markets for ores, limestone, coal, coke, chemicals, plastics, fertilizers, cements, buildings and building components and in a variety of other materials and services, such as titanium, aluminum siding, wood products, land and real estate developments, and financing and consulting services.

During 1968, U. S. Steel produced for its own use or for sale to customers, among other items, 18 million tons of coal; 44 million tons of ores; 26 million tons of limestone; 29 million barrels of cement, and billions of cubic feet of coke oven gas which was further refined into various chemicals, fertilizers and materials for making plastics or used as a fuel. It also fabricated more than one million tons of steel for buildings, bridges, barges, culverts, transmission towers, oilwell pumps and rigs, containers and other structures and products.

Shipments of steel products were 22.5 million tons, or 2.7 million tons more than were shipped in 1967. The sale of steel products and related fabrication and erection services accounted for about 85 percent of all products and services sold.

Above: A new instrument from research. USS research-scientist tests one part of a polaradiometer, an instrument for accurately measuring—without contact—the surface temperatures of products being processed.



Right: Computer-produced bridge drawing. American Bridge Division engineer checks structural stress and design data on a computer and obtains visual evidence of results.

RESEARCH

Rapid worldwide advances in science and technology and growing desires and demands for steel and other materials are catalysts which activate U. S. Steel's research and development activities.

To serve better and to participate more fully in chemicals and plastics markets, U. S. Steel is building a new chemical research laboratory at its Monroeville, Pennsylvania Research Center. This laboratory will house several pilot plants and other chemicals and plastics research facilities, and will enable consolidation of present research efforts in these fields. With this installation, a broader range of process and product development programs will be possible.

Today's faster steelmaking processes, with time cycles of less than an hour, require new instruments which will rapidly measure steel's quality characteristics. One such instrument, developed by USS scientists, is an oxygen probe, a thumb-sized immersible device for near instantaneous measurement of the oxygen content of molten steel.

Another new instrument, one which meets a longstanding need for accurate surface temperature measurement, has been developed and patented by U. S. Steel. A leading technical journal recently referred to this instrument, known as a polaradiometer, as one of the hundred most significant technical developments of 1967. This non-contact device measures temperatures accurately regardless of surface conditions. Test results have been favorable and commercial-sized polaradiometers are being installed on two galvanizing lines.

In the area of electric furnace steelmaking, research studies indicate that the use of high temperature plasma arc torches in a clean, inert atmosphere—a replacement for consumable carbon electrodes—will substantially reduce the

R. Heath Larry, newly elected Vice Chairman of the Board (standing left), explaining public relations programs to (from left seated) John S. Tennant, General Counsel; John E. Angle, new Executive Vice President—Production; Wilbert A. Walker, Comptroller and new Vice Chairman of the Finance Committee; and (standing right) Randolph W. Hyde, Treasurer.

melting time and improve overall quality. This practice is being developed jointly with another firm that conducted the original research on plasma arc torches. The process is currently being tested in a pilot-plant installation. A related project is under way to determine the economic feasibility of using the plasma arc principle to produce high quality specialty and ultra service steels, currently produced only in low-capacity, high-cost vacuum type furnaces.

A patented heat-treating process involving multiple cycles of rapid heating and cooling is being evaluated in a pilot plant at the Research Center. This process greatly refines the grain size of steel, thereby increasing its strength without decreasing ductility or toughness.

Research studies of steels to be enameled have demonstrated that, by controlling the oxygen content to very low levels, shorter processing cycles and better delivery performance are possible.

USS ENGINEERS and CONSULTANTS, INC., a wholly-owned subsidiary, was formed early in 1969 to provide worldwide professional engineering and consulting services in a wide range of steelmaking and related technical areas. The new company will make available U. S. Steel's broad research capability, patents and know-how, along with specialized technical and engineering services in such areas as evaluation, mining and processing of raw materials; materials handling; steel processing, including basic oxygen and continuous casting facilities; air and water pollution abatement equipment; and finishing and coating operations.

The new company is a natural evolution of the extensive technical assistance and licensing programs that U. S. Steel has carried out for many years. It does not displace U. S. Steel's long established engineering and research organizations which serve its operations.

STEEL PRODUCTS AND MARKETS

U. S. Steel supplies a wide range of quality steel products to customers in all major markets. From its integrated research activities flow many new or improved products.

Developing New Products

An 8 percent nickel steel, lower in price than grades previously available, has been recently marketed. It has application in vessels which are used in the processing, transporting and storing of liquefied gases at temperatures between 150° and 275° below zero Fahrenheit. This steel supplements the 9 percent nickel and stainless steels that are already available for more critical applications involving even lower temperatures.

One new steel, recently developed and marketed, economically meets several critical end-use applications in the transportation industry. This steel, USS Stainless W-2, is a chromium-nickel-titanium grade that is low in carbon, manganese and silicon. It meets the growing demand for a less expensive, weldable, high-strength stainless steel having moderate corrosion-resistance properties. Applications include truck-body parts and railroad freight-car side and end plates.

A method for producing grain oriented electrical sheets of superior quality (lower watt loss), under .011 inches thick, for high frequency applications such as pole transformers has been developed. This light-gauge electrical sheet steel meets customers' demands in a highly specialized market.

Developing New Markets

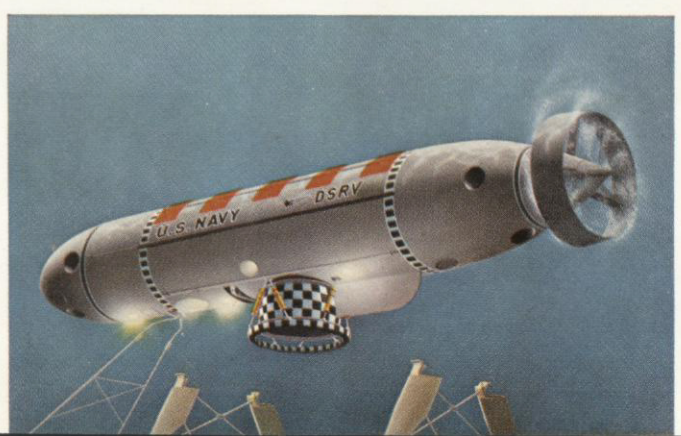
In oceanography, steel finds many uses. It is the predominant material specified for the construction of 35 of the known 41 manned deep-sea research and exploration vehicles built or designed in this country. One product from U. S. Steel's family of high-strength steels, HY-140(T), is being supplied for use in the U. S. Navy's latest deep-sea rescue vehicle, designed to operate down to depths of 3,500 feet. Steels for future rescue vehicles which will operate down to 20,000 feet are under development.

For decorative uses, embossed or textured steel sheets are available to customers in the automotive, appliance, furniture and other consumer product industries. Since virtually any design which can be drawn or photographed can be imparted to the steel sheet, the designer has a new medium of unlimited potential. Recently introduced wide embossed sheets, currently produced only by U. S. Steel in the 72-inch width, offer an aesthetically pleasing, economical substitute for vinyl covered roofs used on about one third of today's new automobiles.

For construction applications, one area of development has been in response to the pressing need for economical housing in high rise residential units.

A dry-floor system of construction resulted from a joint research project with others to develop low cost construction techniques. This system, being applied for the first time in a 19-story apartment tower under construction in Pittsburgh, Pennsylvania, uses gypsum planks with steel tongue and groove edging, tack-welded to open-web steel joists.

A second approach is a steel "staggered truss framing system"—developed by the Massachusetts Institute of Technology as part of a USS sponsored research project —which eliminates all interior columns and beams, thus providing an unencum-



Developing steel markets.

Top left: Delicious ready-to-eat pudding in cans. USS processing know-how and consumer research studies are helping to develop this new growth market for tin-mill products.

Top right: A sleek experimental taxicab, Innovari II. Featuring more than 20 steel innovations, it was designed and built by U. S. Steel to dramatize the unequaled versatility of steel as an automotive material.

Bottom: The U. S. Navy's latest deep-sea rescue vehicle utilizes a new super-strength, weldable, ultra-service steel developed by U. S. Steel to meet critical hydrospace requirements.

bered floor space. The system results in savings in material, fabrication and erection costs. It was recently applied in the design and construction of a low-cost, low-rent 17-story apartment building for the elderly in St. Paul, Minnesota.

For agricultural applications, several design concepts demonstrating steel's strength and versatility have been offered to customers. The QT-70—quiet tractor of the 1970's—is an advanced-design, all-season, working prototype tractor cab. Its design features, including air conditioning, and effective dust, noise, shock and vibration controls, can be applied to cabs for other self-propelled equipment.

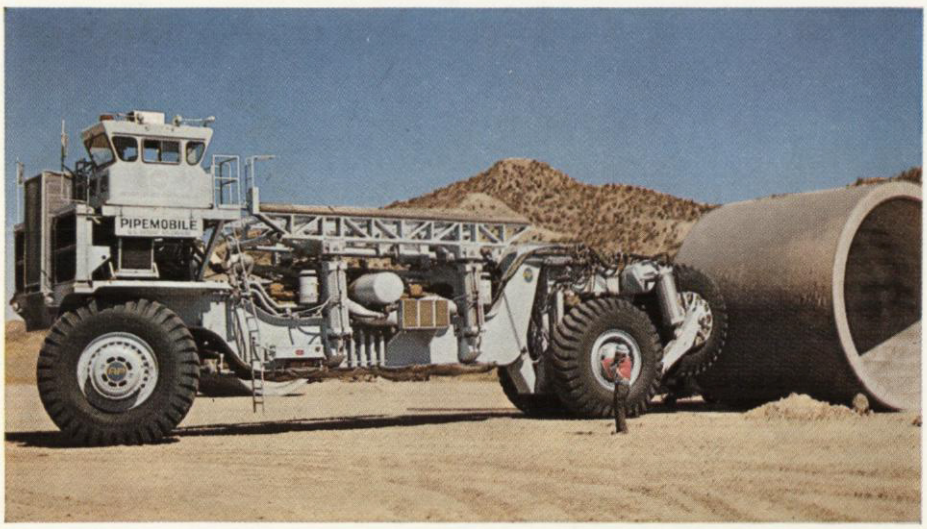
Another concept—USS Rimlift System—will more efficiently and economically handle bulk crops from field to processing plant. A small-scale model incorporating rimmed, nestable steel bins in an integrated equipment system is being demonstrated to fabricators and users in the agricultural field.

Steel Facilities

U. S. Steel's facilities program is reaching virtually every phase of its steel operations. Many new facilities are in full operation, many are in various stages of break-in and many are still under construction. As expected, the start-up and break-in periods for units which are "technological firsts" are extending over many months. This involves substantial costs, but the long range competitive potential of these new units justifies the temporary cost increases.

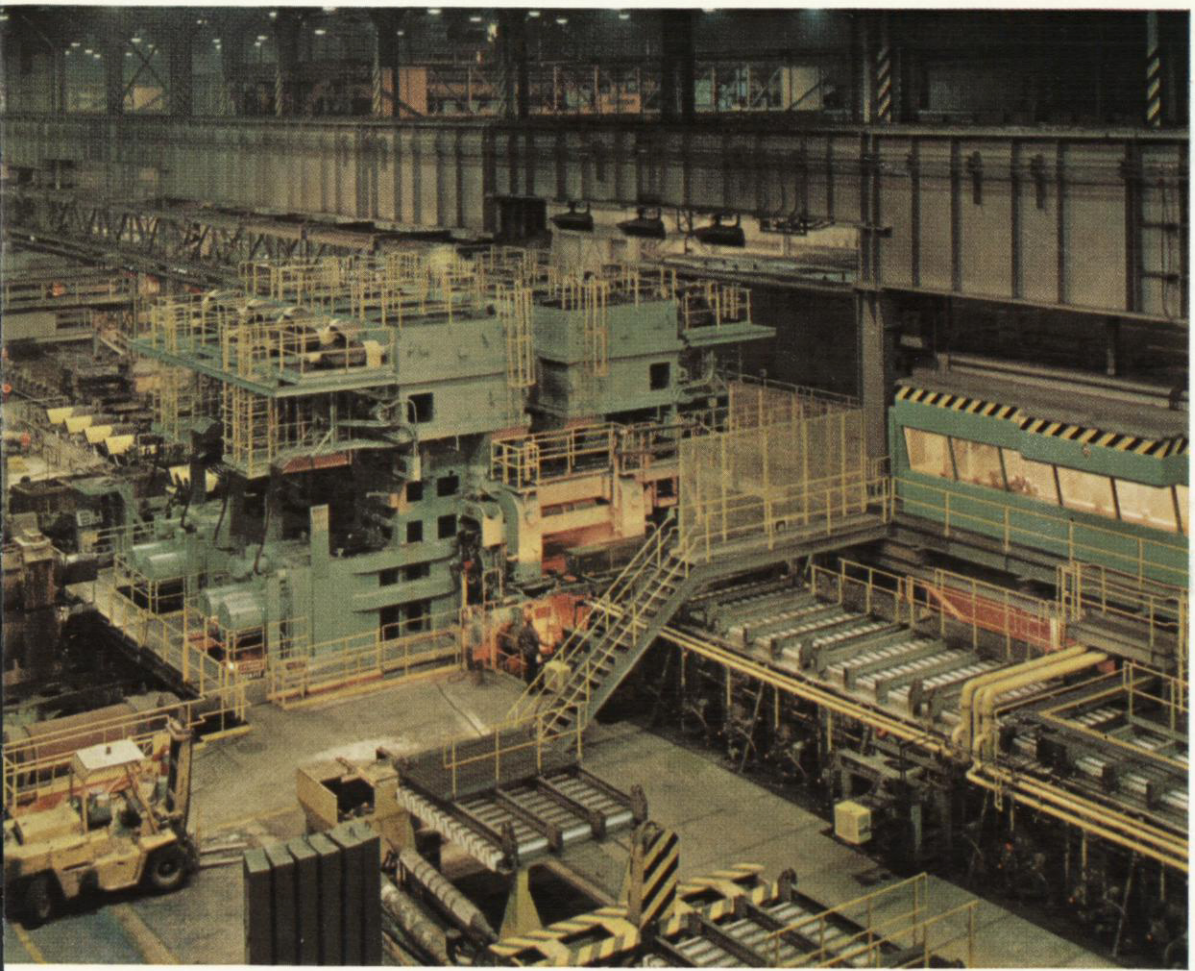
Basic oxygen process (BOP) steelmaking furnaces now in operation, plus the tonnage from those under construction, are expected to provide at least half of U. S. Steel's production by 1971. The first shop, in the Pittsburgh area, has now been operating for more than five years. Another shop is under construction there. Others are in operation in the Chicago area, and a two-vessel shop is under construction at the Lorain (Ohio) Works.

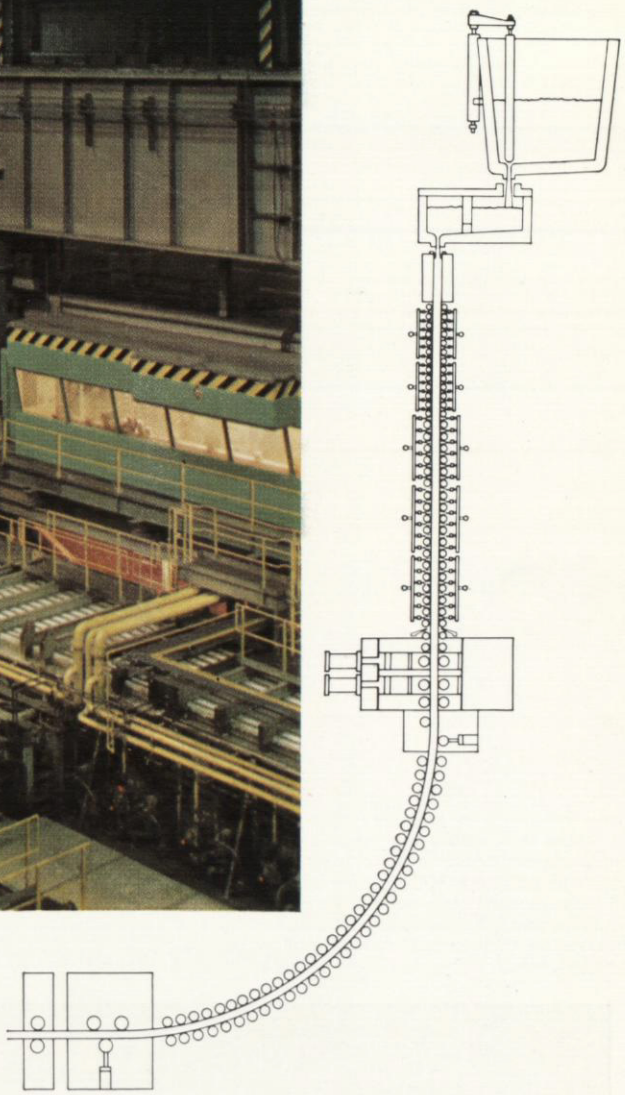
Production from the large, continuous slab caster which started break-in operations in 1967 in the Chicago area continued to increase throughout the year. It now is casting continuous-continuous "strings" of six BOP heats of steel totaling 1,200 tons in five hours and has produced "strings" of eight BOP heats totaling 1,600 tons. This compares to normal industry practice, both here and abroad, of casting single heats of 200 to 300 tons. With only two sizes of molds and using an in-line rolling mill, the unit can produce the complete range of slab sizes for the 84-inch hot strip mill.



Unique Pipemobile handles largest concrete pressure pipe ever made. USS "T-1" Steel used in the frame and critical structural parts makes it strong and trim enough to transport 150-ton pipe sections to job site, install and make joint in one operation.

USS Cyclone Type II fence. This strong chain link fence with clean crisp architectural lines and easy maintenance features is ideal for factories, recreation areas, schools and other areas where security and safety are important.





High-capacity continuous slab caster. Diagram illustrates casting operations: molten steel flows from ladle into a tundish or "reservoir" more than 90 feet in the air; then into a mold where the outer skin solidifies; then the steel ribbon with its still molten core starts down through water sprays, then through rolls which control its descent and support its weight until it is bent into a horizontal position for passage through a continuous reheating furnace (right foreground of picture). The slab then enters a rolling mill (center of picture) for sizing and, upon exit, is cut into various lengths.

Pipe Supermarket. These 5-story high gantry cranes are the key to rapid service at one of U. S. Steel's large pipe stocking and shipping yards.

U. S. Steel's second continuous caster started operations in 1968. It is a four-strand unit located in the Los Angeles area for the casting of blooms and billets. The output of this unit is converted into various bar products on a modernized bar mill serving customers in the West.

Continuous casting progress to date has reaffirmed the desirability of building more casting units. Construction is under way on a high-capacity, four-strand continuous bloom and billet caster and in-line reduction mills in the Chicago area. Construction of a slab caster and electric furnaces at Texas Works was authorized near the end of 1968.

Outstanding research progress continues to be made from the operation of pilot steelmaking and continuous casting facilities at U. S. Steel's Research Laboratory at South Works in Chicago. Improved practices have been developed for casting slabs, blooms and billets. Also, in-line steelmaking, casting and rolling mill techniques have been developed for producing hot rolled coiled strip from molten iron in less than two hours.

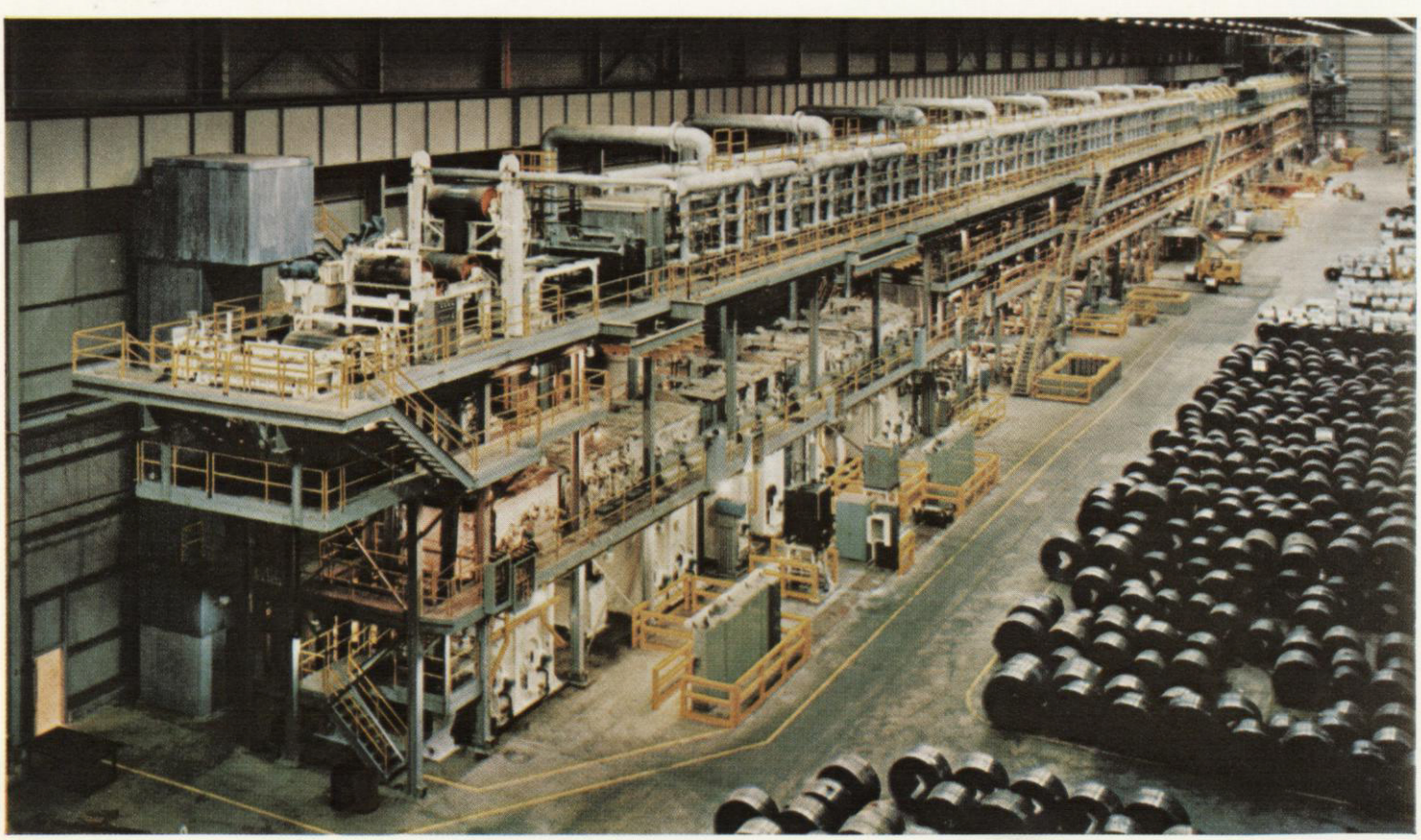
The engineering, patents and know-how for all of these developments are being made available to others by USS ENGINEERS and CONSULTANTS, INC., as mentioned earlier in this Report.

Light flat rolled product facilities are being constructed or have been put into operation in a number of USS locations as part of a continuing program to expand and modernize equipment for the production of high-quality, light flat rolled products—our largest steel product line and one of the fastest growing industry product lines.

The cold rolled sheet expansion project in the Pittsburgh area will be completed in 1969. The output of these facilities will nearly double our capacity to produce such products in that area.

Additional facilities for the continuous production of hot dipped galvanized sheets, in coils weighing up to 62,000 pounds and in widths up to 62 inches, started operation in the Birmingham and Philadelphia areas. A third new line will be in operation in the Chicago area in mid-1969. U. S. Steel is a nationwide pro-

One of U. S. Steel's new "twin" galvanizing lines. Located in the Birmingham and Philadelphia areas, these modern high-speed lines produce zinc-coated steel with outstanding ductility, adherence of coating and appearance.



Top: In the background, a 32-story tower rises on the West Coast. The first apartment building of the Bunker Hill project, a new Los Angeles residential complex, is being erected by American Bridge Division.

Above: Glowing coils on the move. Hot coiled rods are moved by conveyor to a cooling gallery at a recently modernized Chicago area rod mill.

Right: Pride in delivering quality products. Operator at one of U. S. Steel Supply Division's steel service centers performs final inspection on gleaming stainless steel sheets.

ducer of galvanized steel—a corrosion-resistant, zinc-coated product—the markets for which have been expanding rapidly. These steels are widely used in automotive, appliance, construction and agricultural applications.

Four new bar mills will produce a wide range of quality bar products. These mills will permit rapid product delivery to customers in the Great Lakes and Midwest areas. They will supplement production from numerous existing bar production facilities across the Nation. Bar products are found in the vital parts of almost every piece of machinery.

Two of the new bar mills will start operation in 1969. These units will provide quality bars in cut lengths up to 90 feet and in heavy coils up to 4,000 pounds. The third and fourth new bar mills are scheduled to begin operations in 1970 and 1971, respectively.

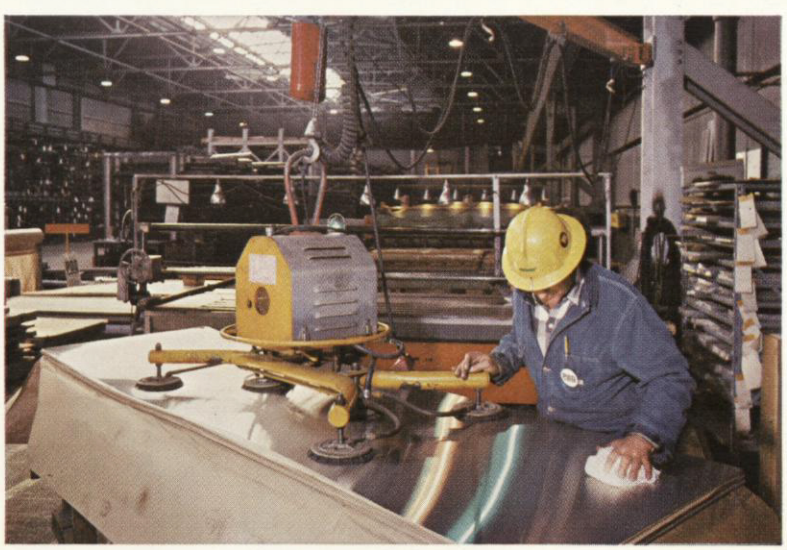
Wire rod availability is being increased with the start of operations of a new, high-capacity rod mill in the Philadelphia area. This mill produces the smaller-diameter rods in continuous weld-free coils weighing up to 3,000 pounds. One coil can contain up to four miles of steel. These longer-length, heavyweight coils of rods, having uniform shape, superior surface and internal quality, can be more economically converted into a variety of end products such as wire, fencing, nails, nuts, bolts, springs, cables, shelving, barbecue grills and bathroom accessories.

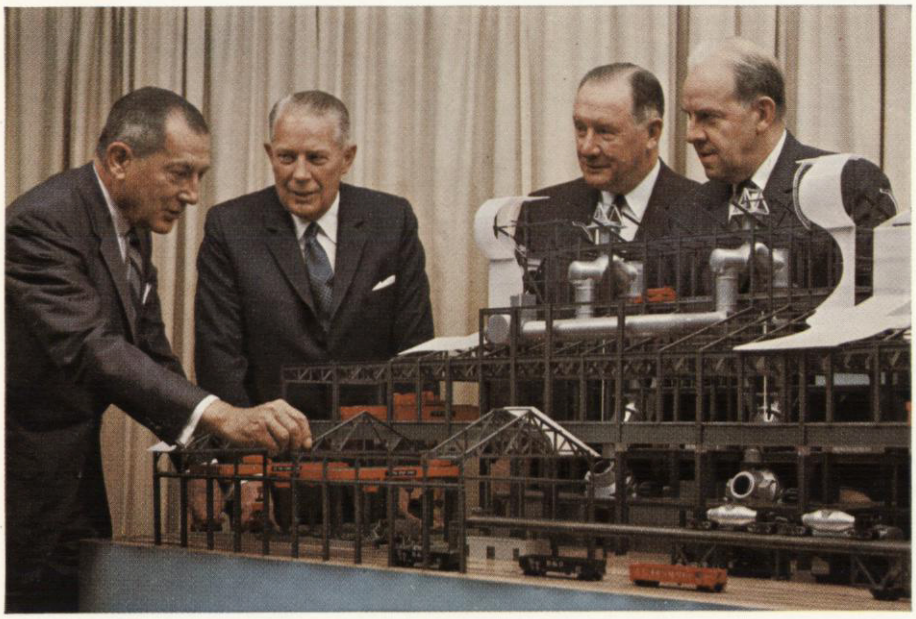
The new 160-inch plate mill, now under construction at the Texas Works, is expected to start operation in the latter part of 1969. This mill, our first in the booming Southwest, will produce sheared plates from 3/16 of an inch to 15 inches in thickness and in widths up to 150 inches. These plates will be used in heavy machinery, railroad cars, ships and barges, buildings and bridges, pipe lines and storage tanks, among other items.

During 1968, plate and structural product availability increased with the installation of additional finishing and shipping facilities in the Chicago area. The availability of heat-treated plates will be increased when a second plate heat-treating line in this area starts operations in 1970. In Utah, structural mill modifications, which will permit production of wide-flange beams, will be completed in late 1969. These wide-flange beams are used in industrial and commercial buildings and in bridges.

Rail, wheel and axle facility expansion projects to go into operation in 1969 include: a complete modernization of wheel production facilities in the Pittsburgh area, wheel finishing equipment in the Chicago area and a rail heat-treating line in the Birmingham area to produce USS CURVEMASTER wear-resistant rails. Additional axle heat-treating and finishing equipment started operations in the Birmingham area in early 1969.

The products of these new units will meet the railroad industry's increasingly stringent requirements stemming from the use of heavier rolling stock and from faster operating speeds.





(From left to right) Arthur V. Wiebel, Henry J. Wallace and John Pugsley, Executive Vice Presidents, and Benjamin L. Rawlins, Secretary, discussing a model of the two-vessel BOP shop now under construction at the Lorain (Ohio) Works.

Fabricating Operations

American Bridge Division will start operations in 1969 in a new fabricating plant at Antioch, California. With this plant, service to customers in Western markets will be greatly improved. Some of the division's fabrication and erection projects include railroad and highway bridges, industrial and commercial buildings, power plants, auditoriums and stadiums, barges, offshore drilling platforms, transmission towers, storage tanks and pressure vessels.

Oilwell Division provides complete drilling rigs, drill pipe, tubing, casing, machinery parts, pumps and other items to the oil, gas and other industries. It operates some 80 conveniently located distribution stores and warehouses in the United States and Canada. A recent unique Oilwell project, resulting from a sale by U. S. Steel International (New York), Inc., was the manufacture of equipment for a giant, mobile drilling rig mounted on six 10-foot high trailers. The complete unit stands 168 feet tall, weighs 1,000 tons and covers an acre of ground. This unit is now performing heavy-duty exploration work in the Sahara Desert for the Algerian Government.

U. S. Steel Products Division manufactures and sells over 200 varieties of drums and pails to the oil, chemical, paint, food and other industries. Two new lightweight, multi-purpose plastic containers, produced by USS Chemicals, were added to the product line in 1968—a 5-gallon closed-head pail for corrosive liquids, the only plastic variety approved for interstate use without additional protective packaging, and a 5-gallon open-head pail for paints, foods and dry chemicals.

Steel Service Centers

U. S. Steel Supply Division opened three more steel service centers during 1968—in Buffalo, Atlanta and Detroit. The division now operates 27 service centers in 21 states. Carrying a complete inventory of locally-required steels and other metals, each of these centers offers a broad range of customized sizing and cutting services. These centers are geared to provide rapid delivery of all orders.

Steel Overseas

U. S. Steel continued its investment activities in steel producing and processing companies abroad during 1968. A majority interest was acquired in two Central American Common Market steel companies. One, a Nicaraguan company, is a diversified producer of steel fabricated products, galvanized sheets, pipe and reinforcing bars. The other, a Guatemalan company, produces light industrial tubing and pipe.

Shipments of stainless steel by an Italian company, in which U. S. Steel has a 50 percent interest, were further increased in 1968. A wire products company in Italy, also 50 percent owned by U. S. Steel, has solved many of its facility start-up problems and is continuing its efforts to obtain a larger share of the specialty wire market in Europe.

Higher levels of production and shipments were achieved in 1968 by Altos Hornos de Vizcaya, an integrated Spanish steel producer in which U. S. Steel has a partial ownership.

OTHER MATERIALS AND MARKETS

U. S. Steel has intensified its efforts to participate in profit opportunities in the growing markets for other materials and services.

Chemicals and Plastics

The chemical business of U. S. Steel has grown rapidly in the last five years.

USS Agri-Chemicals, Inc., a wholly-owned subsidiary (which acquired the business of Armour Agricultural Chemical Company), produces a variety of fertilizers and markets these along with crop protection chemicals for both farm and home markets in the 37 states east of the Rockies and in Puerto Rico. USS Chemicals operates fertilizer producing facilities and a distribution system, including 27 farm and ranch service centers, most of which are west of the Rockies, that sell fertilizers and other products for farm and ranch use. U. S. Steel participates in fertilizer markets on a nationwide basis.

Our new Molded Plastics Products operations include four plastic molding plants and a mold and die manufacturing facility. Products include a wide variety of consumer product components such as television cabinets, automobile dashboards, gasoline tanks and air conditioner front panels. Other products include beverage cartons, 5 to 32-gallon capacity containers and the novel POLY-KOOP shipping container for live fowl.

U. S. Steel's extensive coke oven operations produce a large quantity of basic chemicals. Starting from this base, the U. S. Steel chemical operations have been systematically expanded.

The "Keystone Project" in the Pittsburgh area comprises new facilities employing modern technology to process coke oven gas. These facilities will double U. S. Steel's present capacity to produce anhydrous ammonia. Anhydrous ammonia is an important source of nitrogen for fertilizers, explosives, synthetic fibers, refrigerants and detergents. This plant is expected to be in operation early in 1969. These facilities will also produce greater quantities of other chemicals, such as naphthalene, benzene and toluene.

In 1968, the industrial alcohol expansion at Haverhill (Ohio) was brought to full production and increased alcohol capacity by 16 percent.

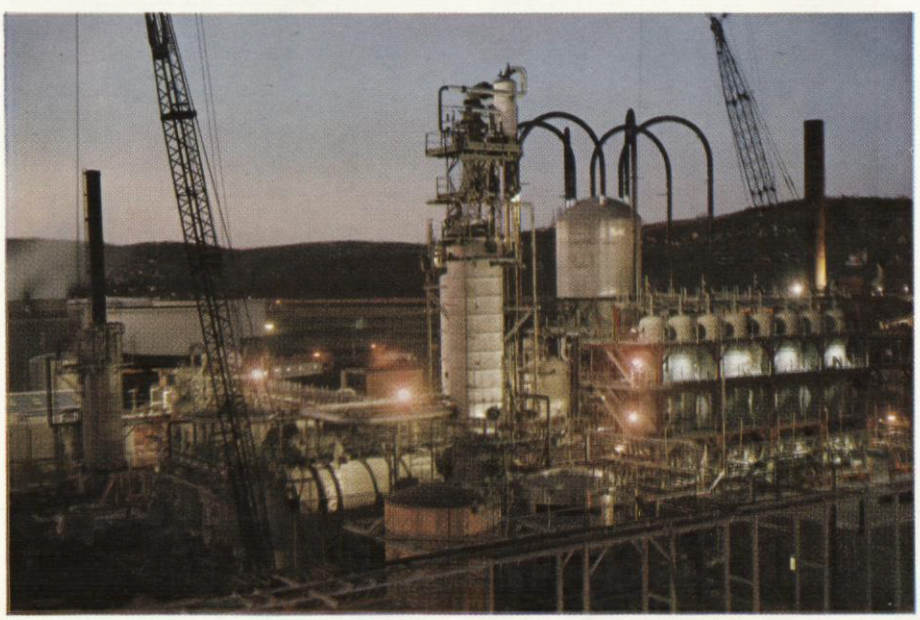
Many chemicals facilities are in various stages of completion. Naphthalene purification facilities and a 125 million-pound capacity phthalic anhydride plant started operation in early 1969. These facilities substantially increase our existing capacity for this product in the Pittsburgh area. Phthalic anhydride is further combined with industrial alcohol to produce plasticizers for the plastics industry. Also scheduled to go on stream soon in the Pittsburgh area is a new plant which will greatly expand the production of maleic anhydride and fumaric acid.

Nearing completion in Ohio are facilities for producing phenol and acetone.

Below left: Fertilizer for lawn and gardens. Homeowner starts his spring "green-up" with one of the many chemical products produced by USS Agri-Chemicals.

Below right: Fertilizer for farms. Idaho farmer takes step toward more abundant yields with field application of liquid USS Anhydrous Ammonia.

Bottom: USS Chemical's new phthalic anhydride plant at Neville Island, near Pittsburgh (Pa.).



Phenol is used by customers to make plastics, adhesives, synthetic fibers and dyes. Acetone is used as a solvent and as a raw material for producing other chemicals and plastics.

Cement

Cement sales during 1968 totaled 28.8 million barrels, about the same as in 1967. Cement price levels, according to the U.S. Bureau of Mines, were slightly higher in 1968 than in 1967 but were still below the 1958 level.

Universal Atlas Cement Division produces over 25 types of cement, with recent emphasis being given to expanding the production of specialty cements. New facilities for the production of white portland cement at Waco, Texas started up in early 1969, and equipment for additional production of calcium-aluminate refractory cements is under construction at Buffington, Indiana.

Bahama Cement Company, a wholly-owned subsidiary, has limestone processing and cement making facilities on Grand Bahama Island. During 1968, additional cement storage silos were installed to provide faster service to customers in the Bahamas, Bermuda and the United States markets.

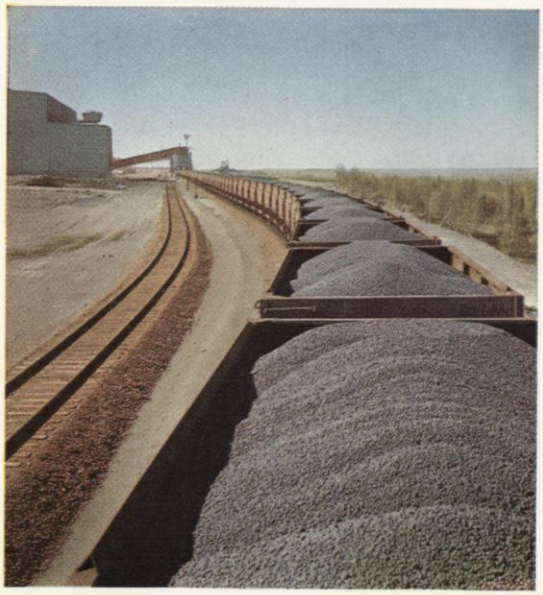
Titanium

Titanium, a strong, lightweight, corrosion-resistant metal, is produced in the form of billets, bars, plates, sheets, strip and tubing by Reactive Metals, Inc.—equally owned by U. S. Steel and National Distillers and Chemical Corporation. Additional equipment for expanded production of these titanium mill products is under construction. The products are utilized by customers in making components for various applications such as today's jet engines, supersonic jet engines and air frames, spacecraft, rockets, deep-sea vehicles, industrial pumps and valves and human surgical implants such as heart valves and hip joints.

Housing, Real Estate and Other Ventures

U. S. Steel Homes Division—utilizing steel and other versatile materials in pre-engineered, factory-produced, structural building components—produces quality single-family residences, town houses, apartments, nursing homes, college dormitories, vacation homes, motels and portable classrooms. Such structures are erected swiftly and economically.

In late 1968 and early 1969, a U.S. Steel subsidiary purchased more than 90 percent of the stock of Alside, Inc., a leading



Unit trainload of iron-rich taconite pellets leaves taconite plant in Minnesota.

Jet engine (right) for one of today's passenger planes contains 11 percent titanium by weight; advanced model (left) for 400-passenger planes contains 25 percent. Use of titanium, a superior strength-to-weight metal produced by Reactive Metals, Inc., increases with each generation of jet engines.

Architectural beauty. Pre-cast concrete designs of white cement (behind marble pillars) blend with other materials to provide strikingly beautiful exterior for a modern building.

manufacturer and distributor of aluminum residential siding and other exterior building components. It is expected that the remaining outstanding stock of Alside, Inc. will also be acquired.

During 1968, U.S. Steel and U.S. Plywood-Champion Papers Inc. formed an equally-owned company, Birmingham Forest Products, Inc. This company will manufacture and sell forest products, including plywood, laminated decking and pulpwood chips, using timber resources overlying, in part, some of U.S. Steel's mineral properties. The facilities are under construction at Cordova, Alabama.

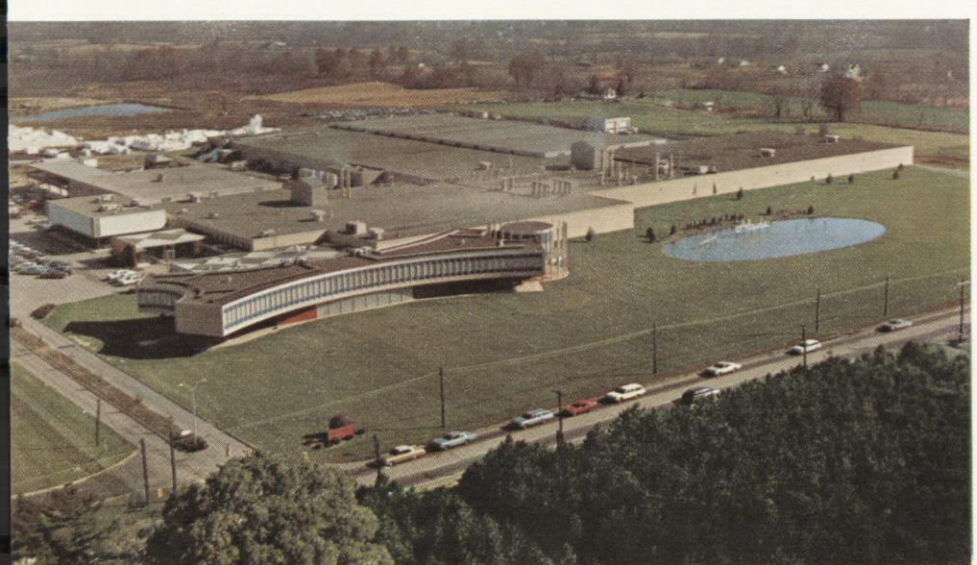
In 1968, U.S. Steel entered into a joint venture with John W. Galbreath, Peter B. Ruffin and Broadcort Corporation, a subsidiary of Merrill Lynch, Pierce, Fenner and Smith, Inc., to erect a 54-story rental office building in Manhattan's financial district. Construction has started on this modern skyscraper and when completed in 1971 it will be one of the most efficient rental structures in New York City. It will literally wear its steel skeleton on the outside to provide column-free space.

Construction is proceeding on U.S. Steel's 64-story Pittsburgh headquarters building scheduled for occupancy in 1970. It will provide space to centralize USS personnel now located in a number of different buildings and will also provide prime office rental space to other firms.

A joint venture with Kaufman and Broad, Inc., a nationwide residential building firm, was established for developing land for residential and commercial use on some 800 acres in the community of Pinetree, near Los Angeles.

U.S. Steel Finance Corporation was incorporated late in 1968 to engage in the general financing business, including real estate mortgage loans, construction loans and financing the sale of products manufactured, fabricated or sold by U.S. Steel, its affiliates and others.

Home of Alside, Inc., in Akron, Ohio. This new USS subsidiary is a leading manufacturer and distributor of aluminum siding in a variety of finishes, such as woodgrain and marble designs.



Raw Materials

Development and construction of a new coal mine and a preparation plant in the Gary (W. Va.) coal district was authorized in late 1968. The timely development of this mine, with an ultimate capacity of 4 million tons per year, together with the reopening of another mine, will enable U. S. Steel to maintain an adequate supply of low-volatile washed coal for its own requirements, by replacing existing mines now nearing depletion, and will also make available additional quantities of high quality coal for public sale.

Extensive facility modernizations and additions are under way at a limestone plant in Michigan. With these improvements, larger quantities of close-tolerance, small-sized crushed limestone will be available starting in 1969 for customers in the chemical, cement and other industries.

Domestic ore operations produced 18.2 million gross tons of iron ore, including 4.6 million tons of high-iron-content pellets from the taconite plant in Minnesota which started operations late in 1967. A new self-unloading lake vessel of advanced design—30 feet wider and 128 feet longer than the largest now afloat on the Great Lakes—is scheduled for completion in 1970. This vessel will have a cargo capacity about three times that of the average vessel in U.S. Steel's present fleet. It will be capable of hauling 2.1 million gross tons of taconite pellets during the Lake navigation season.

Orinoco Mining Company and Quebec Cartier Mining Company—wholly-owned subsidiaries operating in Venezuela and in Canada, respectively—sell iron ore to domestic and international customers, including U. S. Steel. Shipments in 1968 by these companies were 12.5 million and 8.6 million gross tons, respectively.

The one million metric ton per year high-iron briquette plant being constructed by Orinoco Mining Company is expected to start break-in operations in mid-1970. Uniformly-sized, 85 percent iron content briquettes from this plant will be sold in Venezuela and abroad.

Companhia Meridional de Mineracao, a wholly-owned subsidiary in Brazil, sells manganese ore to domestic and international customers, including U. S. Steel. In late 1968, this company and Companhia Vale do Rio Doce, a company controlled by the Government of Brazil, agreed to form a new company for joint development of iron ore fields in the Amazon region in the northern Brazilian State of Pará. Prospecting is anticipated to take three years and further time will be required for planning and design engineering. Construction is anticipated, as the market may determine, after 1975. Under the agreement, U. S. Steel will have a 49 percent interest in the new company.

A manganese ore mining company, in which U. S. Steel has a 49 percent interest, operates in the Republic of Gabon, Africa. In 1968, it shipped 1.2 million gross tons of metallurgical and battery-grade ore to overseas customers, including U. S. Steel. Further expansion of its capacity is under way.

Mina Matilde Corporation, 50 percent owned by U. S. Steel, is completing construction of facilities in Bolivia for the production of zinc ore concentrates. Operations should start in mid-1969.

U. S. Steel holds minority interests in two South African firms—one a chrome ore producer and the other a chrome ore refiner. It also has a 43 percent interest in a company which has a contract with the Republic of Indonesia permitting exploration and development of nickel-bearing ores located there.

EMPLOYMENT COSTS

	Millions 1968	1967
Wages and Salaries	$1,734.0	$1,587.6
Employe Benefits		
Pension costs	$ 70.2	$ 65.4
Social security taxes	79.0	77.9
Insurance costs	94.6	74.3
Supplemental unemployment and extended vacation benefit costs*	27.0	19.7
Savings fund costs	12.7	12.3
Payments to industry welfare and retirement funds and other employe benefit costs	38.4	34.4
Total Cost of Employe Benefits	$ 321.9	$ 284.0
Total Employment Costs	$2,055.9	$1,871.6
Average Number of Employes	201,017	197,643

*Excludes $30.2 and $28.5 millions in 1968 and 1967, respectively, for extended vacation benefits which are included as wages and salaries. In addition, extended vacation benefits to which employes became entitled on December 31, 1968 are included in 1968 in the amount of $18.7 million as wages and salaries and $9.9 million as supplemental unemployment and extended vacation benefit costs.

EMPLOYE BENEFITS

PENSIONS

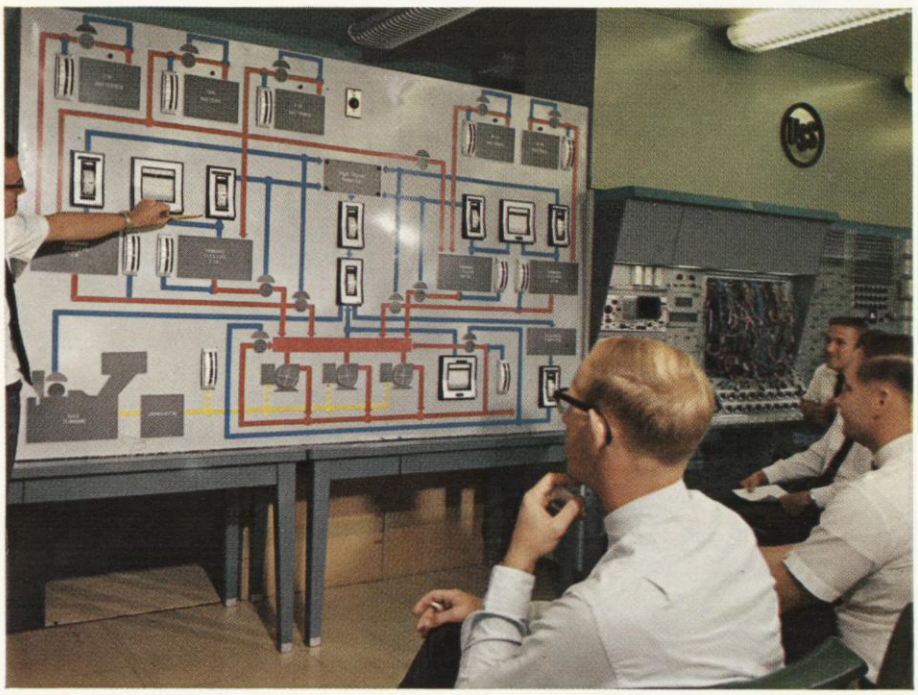
Number of employes pensioned during the year	4,871	5,944
Number of pensioners or co-pensioners at year-end	53,895	52,448
Benefits to pensioners or co-pensioners (millions)	$ 99.2	$ 92.9

INSURANCE

Life insurance in force at year-end for active and retired employes (millions)	$1,803.4	$1,745.3
Death benefits received by beneficiaries (millions)	$ 19.3	$ 17.7
Accident, sickness, hospital, surgical, in-hospital medical and major medical benefits to employes or their families (millions)	$ 65.7	$ 49.5

SAVINGS FUND PLAN FOR SALARIED EMPLOYES

Employe savings		
Amount saved in year (millions)	$ 23.9	$ 23.2
Participants—number at year-end	35,692	36,110
% of those eligible	94.5%	94.3%
Company contributions applicable to Savings (millions)	$ 12.0	$ 11.6
Additional vacation benefits (millions)	$ 2.5	$ 4.0
U. S. Steel common stock held in fund for participants at year-end		
Number of shares	3,906,743	3,453,371
% of common shares outstanding	7.2%	6.4%



Training chemical plant operators. Utilizing actual chemical plant control panel and a computer to simulate actual plant operations, future operators are trained to handle start-up and operating practices and emergency situation measures.

STOCKHOLDERS AND SHARES – COMMON STOCK

December 31, 1968

Registered in name of:	Holders	Shares
Individuals — Women	127,300	13,406,239
— Men	100,786	12,402,156
— Joint Accounts	86,944	6,423,327
Total Individuals	315,030	32,231,722
Nominees	1,447	11,003,083
Brokers	396	6,791,454
Others	31,652	4,118,953
Total	348,525	54,145,212

The number of registered holders of common stock increased 5,468 during the year. No individual held of record as much as two-tenths of one percent of the common stock. Stock registered in the name of nominees, brokers and others is owned by insurance companies; charitable, religious and educational organizations of many types; pension funds; investment companies; trustees, custodians and estates; and others, including many individuals. 36,347 employe participants in the Savings Fund Plan for Salaried Employes are the beneficial owners of stock held by the Trustee of the Plan in the name of a nominee.

Employment

U. S. Steel employed an average of 201,017 people in 1968, about 3,400 more than in 1967. This number includes about 3,900 new employes added in 1968 as a result of acquisitions of businesses.

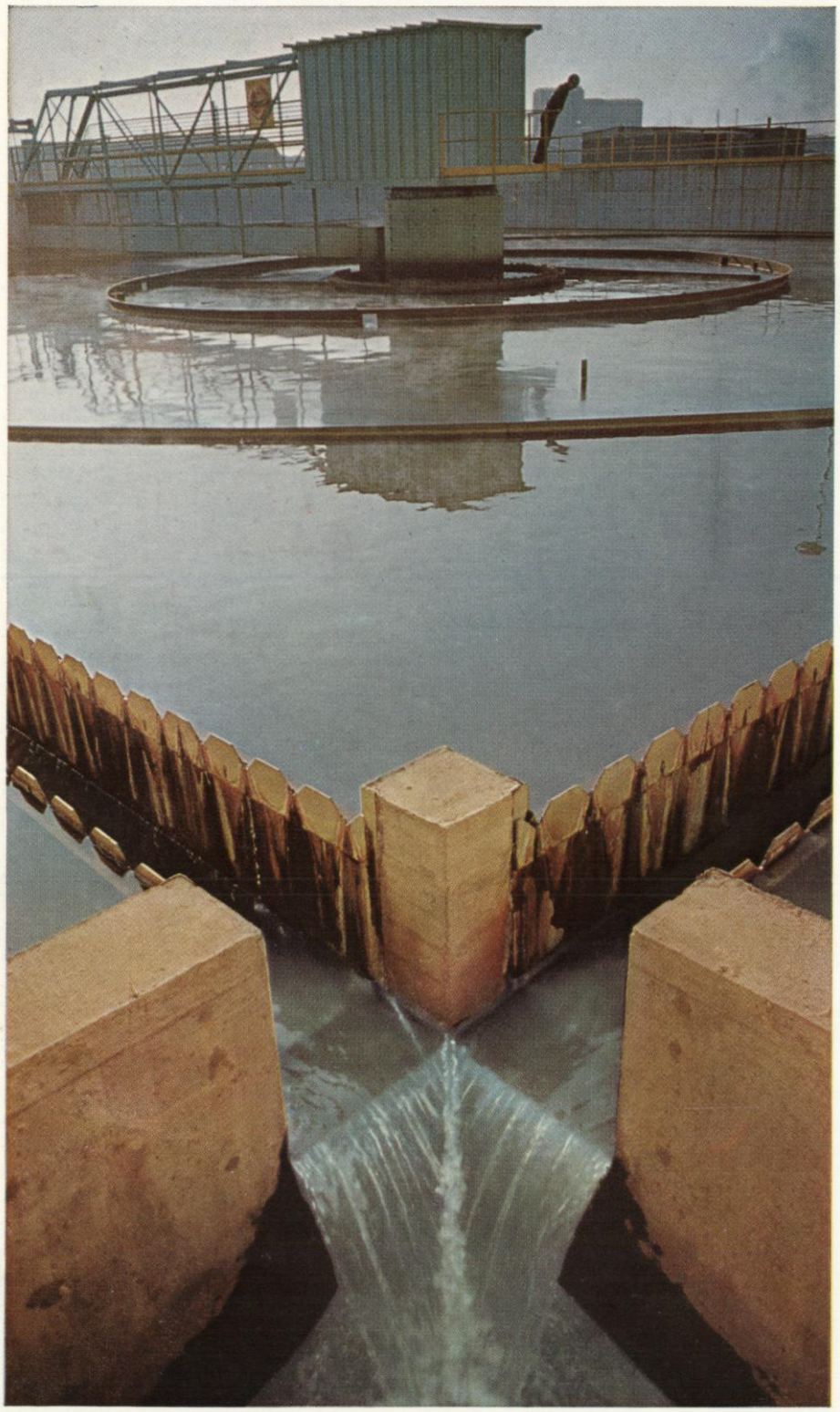
A total of $2.1 billion was paid to or for employes in 1968, including $322 million for employe benefits. These payments and a summary of benefits paid to employes and their families from some of the programs are detailed in the tables on page 18.

The new three-year basic agreement with the United Steelworkers of America, covering the majority of production and maintenance employes in steel producing operations, became effective August 1, 1968 and will remain in effect until terminated after July 31, 1971 by either party upon 60 days' advance notice. It provides general wage rate increases in 1968, 1969 and 1970 and increases in the increment between job class rates.

For future retirees, the minimum pension is increased, and the $60 deduction from certain pensions for Social Security is eliminated. Other changes include improvements in the Supplemental Unemployment Benefits Plan, increased life insurance, a new benefit for widows or widowers, a new major medical insurance program, a new vacation pay supplement, an additional paid holiday, study and the development of a new earnings protection benefit under certain conditions and for increased shift differentials. U. S. Steel announced a $10 monthly increase in certain pensions (other than deferred vested) beginning in August 1969 for those retired prior to July 31, 1968—actuarially reduced where appropriate.

Comparable increases in wages, salaries and benefits were also negotiated for certain union-represented clerical, technical and other employes, and appropriate adjustments were made for certain other salaried employes.

A new three-year contract with the United Mine Workers provides for wage increases October 1, 1968 and for further increases in each of the next two years. It also provides, at varying dates, for elimination of regional wage differentials,



Sparkling water is the product. Clean water flows from the new flocculator-clarifier system at a Chicago area plant, after processing for removal of oily wastes.

for liberalized vacations and a Christmas bonus supplement.

The increased employment costs resulting from these various changes are far in excess of any foreseeable long-term improvements in output per man-hour.

Safety

Safety performance in U. S. Steel continues to reflect the results of intensive safety activities at all locations. For the second consecutive year, the rate of occurrence of disabling injuries in steel producing operations reached a new low —0.62 per million man-hours worked.

Many U. S. Steel plants, mines, warehouses and other operations received recognition in 1968 for outstanding safety performances. For example, 23 of the U. S. Steel plants and warehouses entered in the National Safety Council contests had perfect "frequency zero" safety records for disabling injuries.

Legal Matters

During 1968, a number of civil actions for damages, based on criminal antitrust actions disposed of several years ago, were settled with only a minor effect on the results of operations for the year. At the end of the year several similar actions as well as other legal proceedings were pending which, it is believed, will not involve any material liability.

Contributions

U. S. Steel's contributions for educational and charitable purposes for 1968 were $6.8 million. This sum included $4.0 million for the United States Steel Foundation, Inc., with the major portion of the balance being contributions of property. The Foundation, a non-profit corporation formed in 1953, supports charitable, educational and scientific organizations and activities. A report of the Foundation is available upon request.

Air and Water Controls

Since 1950, U. S. Steel has spent in excess of $235 million for the installation of devices for the abatement of air and water contaminants in its major operating areas

all across the country. In nine states where U. S. Steel has major production facilities, extensive air and water quality control programs are under way.

In Alabama, construction has been started on the first stage of a substantial project to improve water quality in the Birmingham area. Progress is also being made on construction work for an additional dust collecting, electrostatic precipitator system for steelmaking facilities in the Pittsburgh area.

At a plant in the Chicago area, huge tanks are now being built for cleaning more than 700,000 gallons of water per hour from four blast furnaces. This is just one of many air and water quality control projects completed, under way or in the planning stages at this plant. At another plant in this area, four different water purifying installations clean the water before it leaves the site.

Some of the complex conservation systems in U. S. Steel plants tower ten stories high, others go down as deep as nearly one mile and still others cover many acres of surface. And every new facility is equipped with the latest available anti-contamination devices.

■

As is evident from a reading of this Report, steel is and will continue to be our primary business. Also evident, however, are management's efforts to extend our activities into other profitable, growing lines of business consistent with our objective of being a diversified producer of various materials and services.

It is in the interest of the economic health and national security of the Nation that this country have a profitable and growing steel industry. Neither U. S. Steel nor other companies can continue, for long, the massive capital expenditures being undertaken to improve steel's competitiveness unless the prospect for a profitable return on these investments improves. Such a prospect is dependent in part upon an effective restraint on steel product imports into this country.

Such a prospect is also dependent in part upon employment cost increases being, in the long run, contained within the bounds of productivity gains in a manner that will benefit the employes, the investors and the Nation. With solutions to all these problems, as discussed in the Message on "International Competition" beginning on page 32, future investment capital will continue to move into the steel production industry. There is still much to be undertaken—progressively, vigorously and competitively—to improve our financial and market position, to increase the return to our stockholders and to protect and widen the long range job and earnings prospects for our employes. Some progress has been made. The efforts of the entire organization are directed to continuing such progress in the future.

Edwin H. Gott

Chairman, Board of Directors

Edgar B. Speer

President

Robert C. Tyson

Chairman, Finance Committee

February 25, 1969

Financial Statements
Summary of 1968 Financial Operations

ADDITIONS TO WORKING CAPITAL		
Income		$ 253,675,549
Add—Wear and exhaustion of facilities		253,114,609
Deferred taxes on income		85,781,057
Reclassification of deferred taxes on income accrued in prior years		86,505,000
Proceeds from sales and salvage of plant and equipment		8,530,687
Increase in total long-term debt, less payments of $63,862,497		371,220,156
Total additions		1,058,827,058
DEDUCTIONS FROM WORKING CAPITAL		
Expended for plant and equipment	$697,368,858	
Dividends declared on common stock	129,947,699	
Miscellaneous deductions	11,424,610	
Total deductions		838,741,167
INCREASE IN WORKING CAPITAL		$ 220,085,891
WORKING CAPITAL PER CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
December 31, 1968	$875,321,122	
December 31, 1967	655,235,231	
INCREASE		$ 220,085,891

Consolidated Statement of Income

	1968	1967
PRODUCTS AND SERVICES SOLD	$4,609,234,734	$4,067,227,425
COSTS		
Employment costs		
Wages and salaries	1,734,019,614	1,587,584,702
Employe benefits *(see page 18)*	321,897,182	284,061,968
	2,055,916,796	1,871,646,670
Products and services bought	1,766,144,174	1,431,838,466
Wear and exhaustion of facilities	253,114,609	354,705,686
Interest and other costs on long-term debt	67,043,333	54,394,067
State, local and miscellaneous taxes	113,340,273	106,162,955
Estimated United States and foreign taxes on income	100,000,000	76,000,000
Total	4,355,559,185	3,894,747,844
INCOME	253,675,549	172,479,581
Income Per Common Share	$4.69	$3.19
DIVIDENDS DECLARED		
On common stock *($2.40 per share)*	129,947,699	129,943,814
INCOME REINVESTED IN BUSINESS	$ 123,727,850	$ 42,535,767

Consolidated Statement of Financial Position

	Dec. 31, 1968	Dec. 31, 1967
CURRENT ASSETS		
Cash	$ 268,023,799	$ 268,073,369
Marketable securities, at cost (approximates market)	461,825,000	162,686,870
Receivables, less estimated bad debts	467,189,236	398,496,401
Inventories *(details on page 25)*	813,530,008	842,788,342
Total	2,010,568,043	1,672,044,982
Less		
CURRENT LIABILITIES		
Notes and accounts payable	834,171,442	626,555,154
Accrued taxes	247,218,768	337,094,746
Dividend payable	32,488,417	32,486,363
Long-term debt due within one year	21,368,294	20,673,488
Total	1,135,246,921	1,016,809,751
WORKING CAPITAL	875,321,122	655,235,231
Marketable securities, at cost (approximates market), set aside for property additions and replacements	655,000,000	655,000,000
Other investments, at cost less estimated losses	147,415,216	134,331,105
Plant and equipment, less depreciation *(details on page 25)*	3,446,030,129	3,010,306,567
Operating parts and supplies	51,973,773	51,504,865
Costs applicable to future periods	80,346,897	83,123,256
TOTAL ASSETS LESS CURRENT LIABILITIES	5,256,087,137	4,589,501,024
Deduct		
Long-term debt *(details on page 25)*	1,571,255,675	1,200,730,325
Reserves and deferred taxes on income *(details on page 25)*	340,349,303	168,054,640
EXCESS OF ASSETS OVER LIABILITIES AND RESERVES	$3,344,482,159	$3,220,716,059
OWNERSHIP EVIDENCED BY		
Common stock (authorized 90,000,000 shares; outstanding 54,145,212 shares at December 31, 1968 and 54,143,937 shares at December 31, 1967)		
Par value $30 per share	$1,624,356,360	$1,624,318,110
Income reinvested in business *(see page 23 for addition of $123,727,850 in 1968)*	1,720,125,799	1,596,397,949
Total	$3,344,482,159	$3,220,716,059

Details of Selected Items

Dollars in millions

PLANT AND EQUIPMENT

	Facilities (at cost)				Less depreciation and depletion			Net
	Land	Plant	Transportation	Total	Plant	Transportation	Total	
Balance December 31, 1967	$120.9	$7,077.5	$812.2	$8,010.6	$4,537.5	$462.8	$5,000.3	$3,010.3
Additions	8.0	669.0	20.4	697.4	246.3	9.7	256.0†	441.4
Deductions	1.1	105.8	20.3	127.2	105.4	16.1	121.5	5.7‡
Balance December 31, 1968	$127.8	$7,640.7	$812.3	$8,580.8	$4,678.4	$456.4	$5,134.8	$3,446.0

†Wear and exhaustion of $253.1 million shown in the Consolidated Statement of Income comprises depreciation and depletion of $256.0 million, less profit of $2.9 million resulting from sales.

‡Includes $8.6 million proceeds from sales and salvage of plant and equipment, less profit of $2.9 million resulting therefrom.

RESERVES AND DEFERRED TAXES ON INCOME

	Deducted from:		Other				
	Current receivables	Other investments	Reserve for insurance	Reserve for contingencies	Accident and hospital	Deferred income taxes	Total other
Balance December 31, 1967	$12.2	$5.6	$50.0	$40.7	$ 9.4	$ 68.0	$168.1
Additions	.5	—	2.1	—	27.8	85.7	115.6
Deductions	5.8	—	2.1	—	27.8	*86.5**	*56.6*
Balance December 31, 1968	$ 6.9	$5.6	$50.0	$40.7	$ 9.4	$240.2	$340.3

*Reclassification of deferred taxes on income accrued in prior years.

INVENTORIES

	Ore, limestone, coal and coke	Non-ferrous metals	Semi-finished products	Finished products	Supplies and sundry items	Contracts in progress	Total inventories
December 31, 1967	$201.4	$21.2	$270.7	$268.1	$ 69.9	$11.5	$842.8
December 31, 1968	188.8	23.0	221.5	244.8	115.7	19.7	813.5

For the most part, inventories are carried at cost as determined under the last-in, first-out method, and the remainder is carried at cost or market, whichever is lower. The last-in, first-out method was first adopted in 1941 and extended in 1942 and 1947.

LONG-TERM DEBT

	Interest rates	Years of maturity	Outstanding Dec. 31, 1968	Change in the year: Increase	Change in the year: *Decrease*
United States Steel Corporation					
Sinking Fund Debentures (Callable)	4	1983	$ 201.3	$ —	*$16.7*
Sinking Fund Debentures (Callable)	4½	1986	230.7	—	*21.0*
Subordinated Debentures (Callable)	4⅝	1996	622.8	—	—
Notes payable	6*	1972	310.0	310.0	—
Long-term lease obligation relating to Industrial Development Revenue Bonds	4.30–5⅜	1971–1988	80.0	80.0	—
Real estate mortgages and purchase money obligations	—	—	3.3	—	*3.7*
Subsidiaries					
Railroad companies First Mortgage Bonds (Callable)	2⅞–3¼	1970–1996	19.8	—	*2.1*
Notes payable	4½–6⅛	1969–1982	97.1	17.1	*20.0*
Long-term lease obligation relating to Industrial Development Revenue Bonds	3.85–4¾	1969–1986	21.0	21.4	*.4*
Real estate mortgages and purchase money obligations	—	—	6.6	6.6	—
Total long-term debt			1,592.6	435.1	*63.9*
Less amount due within one year			21.3	.6	—
Long-term debt due after one year			$1,571.3	$434.5	*$63.9*

*Beginning in 1969, rate varies with prime commercial rate.

Notes to Financial Statements

PRINCIPLES APPLIED IN CONSOLIDATION

Subsidiaries consolidated include all companies (with minor exceptions) of which a majority of the capital stock is owned by U. S. Steel or by any of its consolidated subsidiaries.

STOCK OPTION INCENTIVE PLANS

The Stock Option Incentive Plan approved by stockholders in 1964 and the Plan approved in 1951 authorized the option and sale of up to 1,500,000 shares and 2,600,000 shares of common stock, respectively, to key management employes, such shares of stock to be made available from authorized unissued or reacquired common stock at market price on the date the options are granted. An option may be exercised in whole at any time, or in part from time to time, during the option period if no prior option is outstanding at a higher price. The option period begins on the date the option is granted and ends five years (1964 Plan) and ten years (1951 Plan) thereafter, except in cases of death, retirement or other earlier termination.

In 1968, options for 530,775 shares were granted to 230 employes at the then market price of $39.625 per share. During 1968, 4 optionees purchased 1,275 shares at $36.75 per share under options granted under the 1964 Plan.

At December 31, 1968, 325 optionees held options to purchase 1,468,625 shares at prices ranging from $36.75 to $82.00 per share for a total of $64.5 million and 35,100 shares were available for future options.

SECURITIES SET ASIDE FOR PROPERTY ADDITIONS AND REPLACEMENTS

At December 31, 1968, completion of authorized additions to and replacements of facilities required an estimated further expenditure of $1,110 million and marketable securities set aside to cover in part such authorized expenditures totaled $655 million, the same as at the end of 1967.

WEAR AND EXHAUSTION OF FACILITIES

For the most part, wear and exhaustion of facilities is related to U. S. Steel's rate of operations and is based on the guideline procedures established in 1962 by the Internal Revenue Service.

Effective for the year 1968, U. S. Steel, for financial reporting purposes, revised the lives of certain properties and changed from accelerated methods of computing depreciation to the straight-line method. The 1968 investment credit provided for in the income tax laws has been taken directly into income as a reduction in the provision for income taxes; the investment credit for 1967 and prior years continues to be allocated to future years; the amounts included in 1968 income totaled $38.6 million. After provision for deferred taxes on income, the depreciation and investment credit changes resulted in increased income of $94.0 million.

RESERVES AND DEFERRED TAXES ON INCOME

U. S. Steel is, for the most part, a self-insurer of its assets against fire, windstorm, marine and related losses. The insurance reserve of $50 million is held available for absorbing possible losses of this character, and is considered adequate for this purpose.

The reserves for contingencies and accident and hospital expenses of $50.1 million, provided mainly in previous years by charges to operations, are held for exceptional unanticipated losses other than those covered by the insurance reserve.

PREFERRED STOCK

At the Annual Meeting held on May 6, 1968, stockholders of U. S. Steel voted to amend the Certificate of Incorporation to authorize the issuance of 20,000,000 shares of a new class of preferred stock, without par value. At December 31, 1968, none of this stock had been issued.

PENSION FUNDING

U. S. Steel's pension plan covers substantially all its employes. Pension costs are determined by an independent actuary, based upon various actuarial factors and an actuarial method under which both current and unfunded past service costs are funded over the future on a combined basis by payment into pension trusts. For 1968, the cost of pensions amounted to $70.2 million compared with $65.4 million in 1967.

The combined assets of the contributory and noncontributory pension trusts were $1,965.2 million at December 31, 1968 and $1,869.6 million at December 31, 1967, as set forth in the statement appearing on page 30. These funds are held by the trustee,

Independent Auditors' Report

(Notes to Financial Statements continued)

United States Steel and Carnegie Pension Fund (a non-profit Pennsylvania membership corporation), solely for the payment of benefits under the U. S. Steel pension plan.

OTHER ITEMS

Other Investments — Other investments include long-term receivables of $84.1 million.

Production Payments — In December 1968, U. S. Steel sold proceeds of mineral production payments which represent an interest in a portion of future production of minerals. These transactions are reflected in operations over the lives of the contracts.

Products and Services Sold—Products and services sold includes interest, dividends and other income of $72.5 million in 1968 and $61.7 million in 1967.

Costs—Wages and salaries totaled $1,767.2 million in 1968 of which $1,734.0 million was included in costs of products and services sold and the balance was charged to construction.

Products and services bought reflects the changes during the year in inventories and deferred costs. These items decreased during 1968 approximately $32 million.

If the total of wages and salaries and products and services bought in 1968 were reclassified as costs of products and services sold and general administrative and selling expenses, the amounts thereof would be $3,295.8 million and $204.3 million, respectively.

Maintenance and repairs of plant and equipment totaled $639.5 million in 1968.

Non-cancellable charters and leases covering ore ships, office space, and other properties with minimum rentals aggregating approximately $38 million per year were in effect at December 31, 1968, the major portion of which terminates within ten years. In 1968, expenditures on such charters and leases amounted to approximately $46 million.

PRICE WATERHOUSE & CO.

60 BROAD STREET

NEW YORK 10004

February 25, 1969

To the Stockholders of

United States Steel Corporation:

In our opinion, the accompanying Consolidated Statement of Financial Position and related Statement of Income present fairly the position of United States Steel Corporation and subsidiaries at December 31, 1968 and the results of operations for the year, in conformity with generally accepted accounting principles. These principles were applied on a basis consistent with that of the preceding year, except for the changes, which we approve, in the methods of computing depreciation and accounting for the investment credit as described in the note, "Wear and Exhaustion of Facilities." Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

16 Year Story
U. S. Steel's Operating and Financial Story 1953-1968

SUMMARY OF OPERATING DATA (net tons in millions)

Year	Total ores mined	Total coal mined	Total coke produced	Total iron produced	Raw steel produced	Steel products shipped	Employment statistics			
							No. of employes	Weekly hours	Hourly earnings	Hourly employment cost
1953	58.7	26.0	21.6	27.2	35.8	25.1	301,560	37.9	$2.39	$2.69
1954	37.9	22.7	18.7	20.9	28.4	20.2	268,142	35.6	2.49	2.84
1955	52.1	25.2	21.6	26.0	35.3	25.5	272,646	37.5	2.70	3.08
1956	47.4	23.0	20.6	24.6	33.4	23.9	260,646	37.1	2.93	3.38
1957	57.9	23.5	22.3	26.4	33.7	23.4	271,037	36.3	3.19	3.71
1958	39.8	16.8	15.1	18.1	23.8	17.0	223,490	34.2	3.50	3.87
1959	36.4	15.0	14.8	18.6	24.4	18.1	200,329	35.1	3.78	4.39
1960	50.2	18.0	16.6	21.2	27.3	18.7	225,081	34.8	3.68	4.30
1961	35.8	15.2	14.2	19.3	25.2	16.8	199,243	35.1	3.89	4.57
1962	37.7	13.5	13.1	18.9	25.4	17.8	194,044	35.0	4.01	4.62
1963	37.0	14.5	13.5	20.9	27.6	18.9	187,721	35.9	4.04	4.68
1964	44.9	17.0	15.6	25.2	32.4	21.2	199,979	36.8	4.08	4.74
1965	46.8	18.0	17.4	25.1	32.6	22.5	208,838	36.1	4.21	4.81
1966	48.1	18.0	17.7	25.7	32.8	21.6	205,544	36.3	4.29	5.01
1967	45.0	19.0	17.8	24.3	30.9	19.8	197,643	35.7	4.41	5.19
1968	44.2	18.0	17.5	25.3	32.4	22.5	201,017	35.8	4.69	5.57

Production data, which are grouped in broad product classifications, include all production of the materials by the operating divisions and subsidiaries and exclude all materials purchased. The average weekly hours shown are based on the average monthly number of employes receiving pay. Hourly employment cost includes hourly earnings, social security taxes, pensions, insurance and other employe benefit costs.

SUMMARY OF FINANCIAL OPERATIONS (change in working capital in millions of dollars)

Year	Additions					Deductions						Increase in working capital
						For plant & equipment		For long-term debt				
	Income as reported	Wear and exhaustion of facilities	Deferred taxes on income	Sale of securities	Miscellaneous additions	Total expenditures	Securities set aside	Reduction in total	Added to current debt	Total dividends declared	Miscellaneous deductions	
1953	222.1	236.6	—	—	6.4	361.4	*19.0*	*5.0*	1.5	103.5	3.3	19.4
1954	195.4	261.8	—	309.5	17.8	227.4	—	5.1	35.3	110.7	—	406.0
1955	370.1	285.2	—	13.7	6.7	239.8	300.0	44.8	*6.8*	148.1	6.7	*56.9*
1956	348.1	277.6	—	4.8	29.8	311.8	225.0	42.7	*1.6*	170.1	3.7	*91.4*
1957	419.4	276.0	—	2.1	7.3	514.9	*110.0*	33.2	*4.7*	186.5	9.0	75.9
1958	301.5	204.9	—	302.6	7.6	448.1	115.0	27.2	1.8	186.6	21.2	16.7
1959	254.5	189.9	—	6.5	19.4	366.1	*35.0*	28.9	4.1	187.0	—	*80.8*
1960	304.2	208.4	—	2.9	8.3	492.4	*195.0*	32.8	*1.1*	187.2	14.9	*7.4*
1961	190.2	210.5	—	499.2	4.4	326.8	—	28.6	.8	187.5	21.2	339.4
1962	163.7	265.9	—	.1	14.1	200.6	—	41.9	18.1	160.5	6.9	15.8
1963	203.5	307.8	—	—	13.4	244.7	30.0	62.9	—	133.4	5.4	48.3
1964	236.8	335.8	—	.7	20.2	292.6	325.0	54.5	*29.4*	133.5	2.5	*185.2*
1965	275.5	324.5	—	.4	22.0	353.6	—	39.3	1.0	133.5	30.8	64.2
1966	249.2	344.3	—	—	28.7	440.7	—	60.1	15.0	119.1	53.9	*66.6*
1967	172.5	354.7	—	.2	60.6	574.7	—	68.5	*16.4*	129.9	—	*168.7*
1968	253.7	253.1	172.2	435.1	8.5	697.4	—	63.9	.6	129.9	10.7	220.1

CONSOLIDATED STATEMENT OF INCOME (dollars in millions)

Year	Products & services sold	Employment costs (1)	Products & services bought	Wear and exhaustion of facilities	Interest & other costs on debt	Income & other taxes	Income			Total dividends declared (3)	Reinvested in business
							Amount	% of sales	Per common share (2)		
1953	3,861.0	1,569.2	1,418.7	236.6	2.1	412.3	222.1	5.8	3.77	103.5	118.6
1954	3,250.4	1,387.0	1,134.3	261.8	5.2	266.7	195.4	6.0	3.23	110.7	84.7
1955	4,097.7	1,614.9	1,355.2	285.2	9.1	463.2	370.1	9.0	6.44	148.1	222.0
1956	4,228.9	1,681.0	1,487.5	277.6	7.7	427.0	348.1	8.2	6.01	170.1	178.0
1957	4,413.8	1,862.0	1,324.2	276.0	7.0	525.2	419.4	9.5	7.33	186.5	232.9
1958	3,472.1	1,488.5	1,085.6	204.9	11.5	380.1	301.5	8.7	5.13	186.6	114.9
1959	3,643.0	1,576.2	1,278.2	189.9	17.6	326.6	254.5	7.0	4.25	187.0	67.5
1960	3,698.5	1,700.0	1,091.2	208.4	16.9	377.8	304.2	8.2	5.16	187.2	117.0
1961	3,336.5	1,622.7	1,022.4	210.5	29.9	260.8	190.2	5.7	3.05	187.5	2.7
1962	3,501.0	1,608.3	1,192.4	265.9	37.5	233.2	163.7	4.7	2.56	160.5	3.2
1963	3,637.2	1,611.5	1,211.0	307.8	35.6	267.8	203.5	5.6	3.30	133.4	70.1
1964	4,129.4	1,795.0	1,404.8	335.8	34.4	322.6	236.8	5.7	3.91	133.5	103.3
1965	4,465.0	1,863.8	1,624.8	324.5	30.9	345.5	275.5	6.2	4.62	133.5	142.0
1966	4,434.7	1,916.0	1,559.0	344.3	56.6	309.6	249.2	5.6	4.60	119.1	130.1
1967	4,067.2	1,871.6	1,431.8	354.7	54.4	182.2	172.5	4.2	3.19	129.9	42.6
1968	4,609.2	2,055.9	1,766.1	253.1	67.1	213.3	253.7	5.5	4.69	129.9	123.8

(1) Employment costs include pensions, social security taxes, insurance and other employe benefit costs.

(2) Adjusted to reflect 2 for 1 stock split in 1955.

(3) Includes $25.2 million on 7% cumulative preferred stock in each year through 1965.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (dollars in millions)

Dec. 31	Working capital				Securities set aside for plant & equipment	Plant & equipment less depreciation	Other non-current assets (1)	Total assets less current liabilities	Long-term debt due after one year	Reserves & deferred taxes on income	Ownership (Stocks and income reinvested) (2)
	Cash and securities	Receivables and inventories	Less—current liabilities	Total working capital							
1953	431.9	742.4	828.3	346.0	—	1,970.0	103.2	2,419.2	64.5	100.0	2,254.7
1954	639.6	686.4	574.0	752.0	—	1,925.7	97.0	2,774.7	324.1	101.9	2,348.7
1955	567.5	775.6	648.0	695.1	300.0	1,873.7	103.6	2,972.4	286.1	103.7	2,582.6
1956	510.1	815.8	722.2	603.7	525.0	1,878.0	107.4	3,114.1	245.0	105.1	2,764.0
1957	526.3	906.7	753.4	679.6	415.0	2,109.6	116.4	3,320.6	216.5	106.3	2,997.8
1958	507.5	915.6	726.8	696.3	530.0	2,345.1	138.6	3,710.0	487.5	108.5	3,114.0
1959	515.4	908.3	808.2	615.5	495.0	2,511.9	128.5	3,750.9	454.5	112.7	3,183.7
1960	451.7	944.1	787.7	608.1	300.0	2,787.6	143.4	3,839.1	422.8	114.4	3,301.9
1961	642.2	1,060.9	755.6	947.5	300.0	2,899.5	169.4	4,316.4	893.4	117.1	3,305.9
1962	691.3	995.3	723.3	963.3	300.0	2,820.1	176.2	4,259.6	833.4	117.1	3,309.1
1963	857.4	920.8	766.6	1,011.6	330.0	2,743.6	181.6	4,266.8	770.5	117.1	3,379.2
1964	583.0	1,090.9	847.5	826.4	655.0	2,693.0	184.1	4,358.5	745.4	130.4	3,482.7
1965	764.2	986.4	860.0	890.6	655.0	2,714.1	213.4	4,473.1	705.1	143.1	3,624.9
1966	787.9	1,105.7	1,069.6	824.0	655.0	2,798.4	295.3	4,572.7	1,252.8	141.9	3,178.0
1967	430.7	1,241.3	1,016.8	655.2	655.0	3,010.3	269.0	4,589.5	1,200.7	168.1	3,220.7
1968	729.8	1,280.7	1,135.2	875.3	655.0	3,446.0	279.8	5,256.1	1,571.3	340.3	3,344.5

(1) Includes other investments, operating parts and supplies and costs applicable to future periods.

(2) Ownership in 1966 and subsequent years is applicable only to common stock; in prior years it also includes $360.3 million par value of 7% cumulative preferred stock.

Combined Pension Trusts
United States Steel and Carnegie Pension Fund, Trustee

STATEMENT OF ASSETS

	Dec. 31, 1968	Dec. 31, 1967
Investments, at cost (less than aggregate market or estimated fair value) *(details on page 31)*	$1,940,134,311	$1,830,077,334
Cash	14,176,556	20,429,359
Accrued interest and other receivables	17,224,773	14,660,141
Contributions receivable in subsequent period	6,649,519	24,876,970
Payables	*12,966,865*	*20,417,679*
Assets	$1,965,218,294	$1,869,626,125

STATEMENT OF CHANGES DURING THE YEAR

	Year 1968	Year 1967
Balance at beginning of year	$1,869,626,125	$1,791,844,919
Additions		
Receipts from employing companies	70,189,781	65,436,609
Receipts from participating employes	6,813,443	6,195,093
Receipts from predecessor trustees of acquired plans	6,795,069	—
Income from investments	100,968,660	93,313,461
Gain on disposition of investments	11,984,970	7,209,897
	2,066,378,048	1,963,999,979
Deductions		
Pension payments	99,194,534	92,878,727
Refunds to withdrawing employes	1,965,220	1,495,127
	101,159,754	94,373,854
Balance at end of year	$1,965,218,294	$1,869,626,125

United States Steel and Carnegie Pension Fund, Trustee

SUMMARY OF INVESTMENTS

	At December 31, 1968	
Securities of Subsidiaries of United States Steel Corporation		
Elgin, Joliet and Eastern Railway Company First Mortgage Series A	$ 2,662,333	
Pittsburg, Bessemer and Lake Erie Railroad Company First Mortgage Series A	2,313,920	
Union Railroad Company First and Refunding Mortgage Series A	5,540,000	$ 10,516,253
Other bonds, notes and debentures		
United States Government	145,223,359	
Other	689,171,938	834,395,297
Preferred stocks		20,417,539
Common stocks		832,773,680
Mortgages		12,902,876
Oil, gas and other payments and royalties		21,749,569
Properties owned		207,379,097
Total investments, at cost		$1,940,134,311

To the Board of Directors of
United States Steel and Carnegie Pension Fund:

In our opinion, the accompanying Statement of Assets, Statement of Changes During the Year and Summary of Investments present fairly the financial position of the combined pension trusts administered by United States Steel and Carnegie Pension Fund as trustee at December 31, 1968 and the changes therein during the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and included confirmation of the cash and investments owned at December 31, 1968 by certificates obtained from the depositaries and custodians, or by inspection, and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

60 Broad Street
New York 10004
February 25, 1969

". . . many industries are . . . being challenged by imports growing faster than exports . . ."

A Message from U. S. Steel on . . .

International Competition

As world trade reaches $200 billion per year and reaches out to over three billion people on five continents over seven seas, much is being said by many about international competition.

Some simply equate international competition with "free trade" and extol its virtues. To be sure, free trade may serve as an economic ambassador for peace. For nations that trade together tend to stay together. To be sure, free trade may be an engine of international growth, prosperity and division of labor. For trade generates jobs, markets and incomes. And, to be sure, free trade may serve as an international economic discipline. For trade is a world-spanning "invisible hand" regulating nationalistic excesses in the markets for both a nation's goods and money.

But can free trade be so simply equated with international competition? As this Message will seek to show, international competition, when placed in perspective, is really much more complex than free trade; and in the real world, trade is much less free than some assume it to be. For abroad, the world still seems to cling to outdated protectionist policies. And at home, America still seems to cling to outmoded depression-born economic policies. The thrust of such foreign and domestic policies both makes trade less free and America less competitive—nationally and internationally.

For its part, U. S. Steel is striving to strengthen its national and international competitiveness, as is evident throughout this Report. Nevertheless, if world competition has as indicated become more "imperfect," U. S. Steel believes that the time has come for an old climate to yield to a new climate for international competition.

At the same time, we recognize that even to attempt to "equalize the economics" of international competition is a complex problem for which there is no simple solution. In the short run, certain corrective counteractions are crucial to America's military and economic security. In the long run, America needs a new climate of internationally competitive labor and competitive government — for internationally competitive business.

International Competition in Perspective

In the current U. S. economic climate, international competition has the appearance of an iceberg. On the surface, international transactions do not loom large in relation to booming domestic business. Merchandise exports, for example, which recently reached an annual rate of over $35 billion, represent only around 4 percent of the Nation's total output of goods and services. Moreover, merchandise trade until recently has produced a comfortable and almost continuous overall surplus of exports over imports.

But under the surface has been an uncomfortable and almost continuous net deficit in other international transactions —notably in foreign aid and military expenditures abroad. If private investment abroad is considered by itself, it has also added to the short-term deficit. However, it should be recognized that this investment has been recently returning more each year in income than is being invested and has also added to long-term assets.

As a result of all these factors, our net balance of payments has been in deficit almost continuously since 1949. These deficits have cut our gold stock in half— from over $24 billion to less than $11 billion—contributing to declining confidence in the dollar. The deficits have also raised our liquid liabilities to foreigners higher than the gold left to cover them, creating possibilities of a dollar devaluation unless corrective measures are taken.

Still, as recently as 1964, the U. S. enjoyed a merchandise trade surplus of over $6.5 billion per year. But, as can be seen in the chart on page 34, since 1964 merchandise imports have almost overtaken exports, and by the end of 1967 the trade surplus had practically withered away.

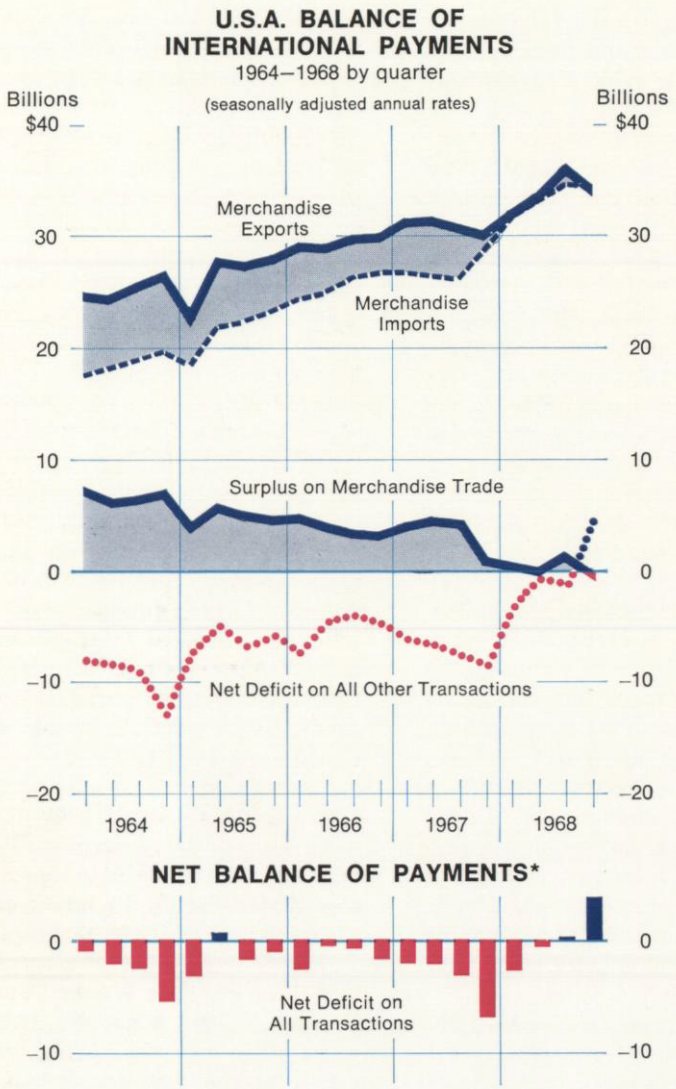
In the fourth quarter of 1967, as the chart also shows, the net deficit on all transactions—the balance of payments— plunged alarmingly, partly because of a sharp decrease in inflows of foreign investment. In 1968, balance of payments pressures temporarily eased, in part because of the expedient of mandatory curbs on investment of private U. S. funds abroad and in part because of heavy inflows of foreign investment. These flows have also reflected international political and monetary crises, particularly in the fourth quarters of 1967 and 1968. In any event, the merchandise trade surplus declined from 1967 to 1968.

Steel in the Trade Balance

This decline in our overall trade balance has been accentuated by a deepening steel trade deficit. In terms of tonnage, as the chart on page 35 portrays, just since 1964 steel imports have mounted from less than 7 million tons to over 18 million tons in 1968. Thus as shown, in four short years steel import penetration of the domestic market has doubled — from less than 8 percent to about 17 percent.

Of course steel imports intensified in part in 1968 because of strike-hedge inventory buildups by customers, but after such previous buildups, as in the 1964-65 strike-hedge period, imports have not subsided for long. In any case, in 1968 about one out of every six tons of steel marketed in the U. S. was made elsewhere—principally in Japan or Western Europe.

In money terms, then, in 1968 it is estimated that steel trade was adversely affecting the Nation's trade balance by about $1.5 billion. In addition, imports of manufactured goods made from steel, such as autos and machinery, have in-



*Liquidity basis
Source: U.S. Dept. of Commerce; merchandise excludes military.
Year 1968 data partly estimated

creased faster than such exports, further adversely affecting the Nation's steel markets and trade balance.

Indeed, import competition has intensified in many markets. According to a detailed study released in 1968, some 120 manufacturing industry groups, apart from steel, also appear to have chronic and increasing trade deficits. These groups account for only about 15 percent of all manufacturing exports, but absorb over 50 percent of all such imports; and their imports have been increasing around three times as fast as their exports.

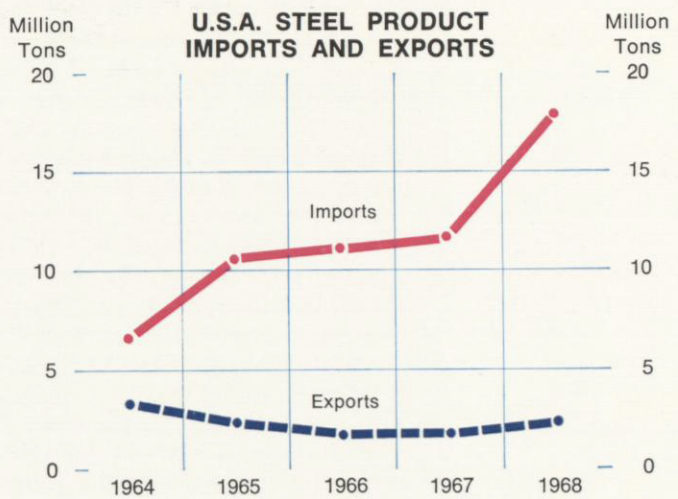
To be sure, imports generally have gained on exports as our economy has strained under maximum employment at home and over-commitment abroad. Still, these comparisons strongly suggest that steel's well-known import problem is now becoming other industries' import problem as well; that many industries are already at least being challenged by imports growing faster than exports—indeed, that the United States generally is losing competitiveness.

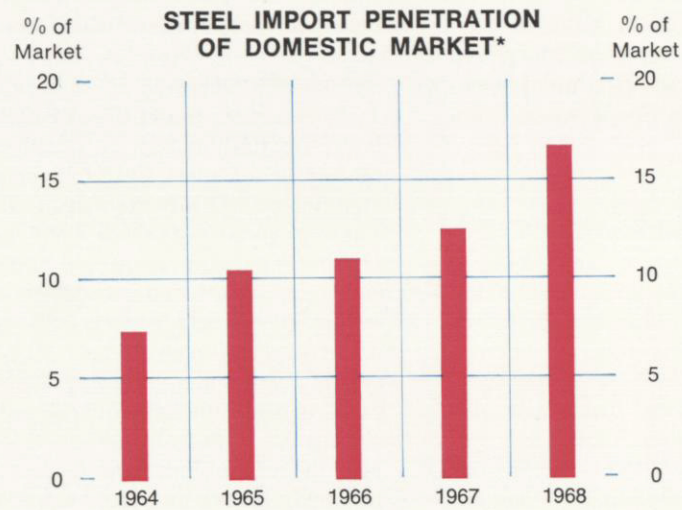
International Competition and Costs

Now, why is the United States losing competitiveness? International competition, like domestic business, is on the surface a matter of price. But underneath price is ultimately cost. In other words, if our prices are becoming internationally noncompetitive, it is because our costs are generally becoming internationally noncompetitive. And in the U. S. economy as a whole, if not in the world as a whole, employment costs account for three quarters or more of all costs. And we know that our employment costs have been climbing rapidly, particularly in recent years in our over-committed economy.

Therefore, one root cause of intensifying international competition for the United States is intensifying domestic employment cost inflation. Such inflation is widening the basic international wage gap faster than domestic improvements in productivity can close it.

As indicated in the chart on page 36, such cost-push inflation in the U. S. private nonfarm economy has been especially





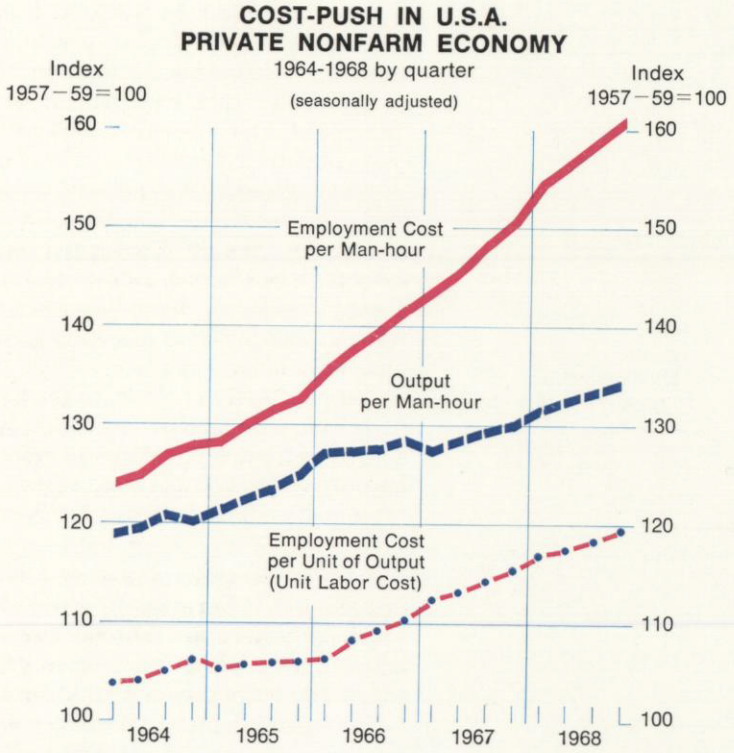
*Tons shipped by domestic producers, minus exports plus imports
Source: AISI
Year 1968 data partly estimated

strong since 1965. In 1965, at least, the average employment cost per man-hour generally rose no faster than output per man-hour, so that employment cost per unit of output, commonly called unit labor cost, remained fairly stable throughout the year. Indeed, as the chart also shows, unit labor costs in the private nonfarm economy were only 6 percent greater in 1965 than in 1957-59. But since 1965 employment cost per hour has risen faster while output per hour has risen slower, so that unit labor costs have been pushed up rapidly. In 1968 alone, the hourly employment cost in our economy jumped about 7 percent while output per man-hour improved about 3 percent, so that unit labor costs climbed almost 4 percent.

Granted, some other nations experienced even greater rates of cost inflation in 1968. But the great gap between hourly wage costs here and abroad means that a lesser *rate* of inflation here can still widen the *wage* advantage "over there."

The widening international wage gap in steel was discussed in U. S. Steel's 1967 Annual Report. For manufacturing as a whole, as illustrated in the diagram on page 37, the 1967 average U. S. employment cost was $3.75 per hour—a gap of $2.15 over the average hourly cost of about $1.60 in Western Europe, to cite an example. Consequently, a 7 percent increase in 1968 would add about 26 cents per hour to the U. S. cost; while even a 10 percent increase, such as reported for strike-torn France, would have added only 16 cents to the average cost in Western Europe. And we know that international competition flows in money, not in percentages.

Moreover, although U. S. technology and productivity are improving, in an increasing number of industries they no longer seem sufficiently superior to offset our hourly employment cost disadvantage. Further, technological gains here can soon be matched or sometimes surpassed overseas, when capital is available. In addition, plant and equipment costs are much lower abroad. Thus the U. S. has a fundamental international competitive cost disadvantage—a disadvantage likely to worsen before it wanes.



Source: BLS; employment cost per unit of output equals employment cost per man-hour divided by output per man-hour.
Year 1968 data partly estimated

Therefore, U. S. Steel believes that **nothing lasting will be done about import competition in America until something lasting is done about wage inflation in America.**

Protectionism Abroad

But America must also cope with other international competitive realities, as previously indicated. During much of the post-World War II era, foreign producers had to rebuild their plants, frequently with American assistance, to supply their own markets. Now these producers with expanding modern plants are also well able to supply U. S. markets—thereby exploiting their overwhelming wage advantages and maximizing their employment.

Yet much of their postwar protectionism persists, although no longer justifiable on competitive grounds or under the theory of trade reciprocity. To be sure, tariff barriers are easing up; the General Agreement on Tariffs and Trade (GATT) calls for "reciprocal" tariff reductions. But, undermining the spirit of GATT, many nations still retain, and some have newly erected, "unreciprocal" non-tariff barriers which tend to offset tariff cuts.

As a result, other nations still have many import advantages in the U. S. and we still have many export disadvantages in other nations. Overseas, our exporters, already burdened with American taxes, encounter border taxes—among a proliferation of other non-tariff barriers. The importer to our shores, however, meets few if any border taxes and, in addition, sometimes even receives rebates from his own government on his own taxes. But, even if Congress should retaliate with import taxes and export rebates, similar to those in other countries, our existing tax structure is such that our non-tariff tax barriers might still not match theirs.

But rather than the U. S. enacting retaliatory border taxes, other nations need to dismantle their various trade and investment barriers and thereby free up international competition. In this connection it is well to remember that foreign trade barriers and wage advantages tend to make it more profitable for U. S. business to invest overseas than to export.

Expedients at Home

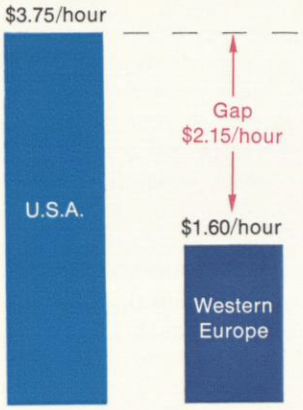
By contrast, the U. S. has fewer trade barriers. Rather, our "protectionism" is mainly in the expedient of investment restraints and inhibits us more than others. These restraints include the income tax on unrepatriated earnings, the interest equalization tax, and mandatory curbs on overseas loans and investments—all in the name of reducing our balance of payments deficit. Such restraints have been imposed even though investments already made abroad have been returning more each year in income than Americans have been investing overseas. Moreover, such investment abroad frequently implements U. S. exports such as machinery.

A new climate for international competition would certainly involve phasing

Citizens & Southern National Bank in Atlanta. A unique circular hanging steel structure design was used in this 15-story office tower and bank, erected by American Bridge Division.

MANUFACTURING EMPLOYMENT COST U.S.A. vs. WESTERN EUROPE

Averages, year 1967



Source: USA—BLS; Western Europe—estimated from various sources

out these capital flow curbs—before the return flow ebbs—and immediately allowing investments, especially if they are tied to exports. At the same time, as noted, in the short run certain countervailing corrective actions are crucial to America's military and economic security.

Import Quotas and National Security

National security importantly depends on steel, both directly for defense needs and indirectly for the sinews of the Nation's productive capabilities in peacetime and wartime. In times of emergency, we dare not be dependent upon offshore steel sources. This means that at all times our domestic steel capabilities must remain strong and modern, and that the foreign share of our domestic steel consumption must not jeopardize our overall preparedness at any time.

Some lessening of this vulnerability to steel imports may be achieved through "voluntary" limitations on steel shipments to the United States adopted by Japanese and European steelmakers. Although such arrangements are a step in the right direction, the short-term duration of these "voluntary" limitations hardly helps reduce the uncertainties of longer-term forward planning by American steel companies. Moreover, the rising level of the "voluntary" limits will still let the foreign *share* of our market expand.

For these reasons, the American Iron and Steel Institute, speaking for the steel industry and granting that the "voluntary" plan is an encouraging step, still believes that Congress should—at least in the interest of national security—continue to consider a definitive legislative solution to the steel import problem. A solution under legislation already proposed would not stop imports but would limit foreign producers to the same share of the market they have enjoyed in recent years and would be subject to periodic review. It would thus provide an opportunity for both foreign and domestic producers to expand their sales in the U. S. as the market grows. Moreover, American producers would still compete for the total steel market. Hence, such a solution would still permit growing competition among steel producers and from competing materials.

Further, under the GATT agreement, a legislated solution is permissible for national security and temporary balance of payments purposes—and so should not be subject to retaliation. Finally, a short-run solution would buy time to seek for the long run a new climate for international competition in terms of competitive labor and competitive government.

Competitive Government

As previously indicated, our Government has seemed to cling to depression-

born economic policies now outmoded. These policies date back at least to the Employment Act of 1946, which called for "maximum employment, production and purchasing power." Now, however, with serious inflation and tight labor markets at home and with a high tide of imports from abroad, new competitive governmental policies are needed.

In place of our obsession with maximum expansionism, we need more—and equal—employment *opportunities*; and we need *optimum* economic growth with *minimum* inflation in wages and prices. In other words, we need a new climate of meshing monetary, fiscal and legislative policies geared to long-term growth—but counteractive to swings in the business cycle. In this way cost-push and demand-pull inflation could no longer feed on each other and undermine international confidence in the dollar.

But "competitive government" means more than coordinated monetary and fiscal moves. It means realistic expenditure control as well as incentive-releasing tax and regulatory policies—at the Federal, state and local levels. It means real tax reform, not just preoccupation with "loophole" closing—so that business decision-making can be based on commercial consequences instead of tax consequences. It means minimum regulation—that is, without strangulation — of mergers, pension plans and security marketing. It means de-guidelined freedom to arrive at wage and price changes in the light of international competition. It could also mean consideration of changes in our domestic tax structure to make our international business more competitive.

Competitive Labor

Similarly, our loss of competitiveness has involved outmoded depression-born labor policies by both government and labor unions. But instead of centralized union power to compel inflationary, non-competitive wage increases, we now need "competitive" wage settlements and market-oriented job security—in effect, we need "voluntary quotas" for wage hikes geared to growth in national productivity.

Instead of "overemployment" caused by restrictive, spread-the-work practices, resistance to technological change and restraints on worker efficiency, we now need equal job opportunities with job training and rewards for superior performance. For if rising imports lead to employe displacement, the unskilled will tend to be the most affected.

And instead of "underemployment" caused by minimum wages pricing unskilled workers out of the labor market, we need certain exemptions from the minimum wage laws as well as more realistic job qualifications for unskilled prospective job-holders. For, again, the rising imports tend to hit such job opportunities the hardest.

In all these ways, American workers can become more competitive. They can contribute to rising employment for a growing labor force with real—that is, noninflationary — wage gains. And they can thereby help create a new climate for international competition.

Competitive Business

But, in the long run, it is up to competitive business to make such a new climate work for the benefit of all. To be sure, profit-motivated corporations are competitively compelled to invest in new jobs where their prices to cost-motivated customers can be mutually attractive — at home or abroad. But with the hoped-for decline in defense needs in Vietnam and a less overheated economy at home, corporations should be freed up to compete even harder for business—at home and abroad. In the long run, given less protectionism abroad, and given competitive government and competitive labor at home, American business can and will increasingly assume the rising risks of world markets and ventures.

U. S. Steel believes that efficient, prospering American business—from mini-business to multi-industry and multi-national — freely and progressively investing in modern plant and equipment for job creation and economic growth is the best long-run bet to win in international competition.

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R. Heath Larry and Edgar B. Speer elected to Board May 6, 1968 and Executive and Finance Committees December 17, 1968. Wilbert A. Walker elected to Board and both Committees December 17, 1968. David Packard was a director until January 6, 1969.

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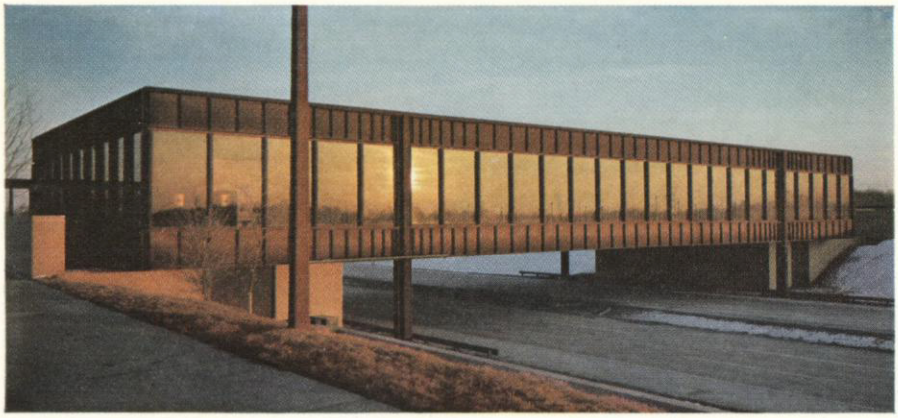

Abraham Lincoln Oasis Highway Restaurant, spanning the Illinois Toll Road, near Chicago. The building is literally a bridge which displays the aesthetic beauty of maintenance-free USS COR-TEN steel used in its exposed structural framing.

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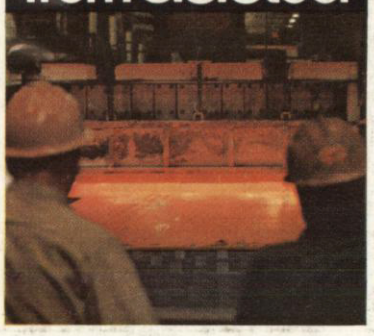

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